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World Business Newspaper http://www.FT.com WEDNESDAY OCTOBER 8 1997

THE GLOBAL COMPANY

Percy Barnevik
Chairman ABB and Investor

'Globalisation is a long-lasting competitive advantage'

Part three in today's FT

UN insists Iraq reveals weapons

Review accuses Baghdad of obstructing mass destruction programme inspectors

By Laura Silber and Michael Littlejohns at the United Nations in New York and Robert Corzine in London

A United Nations commission yesterday urged the Security Council to force Iraq to reveal the full extent of its most dangerous weapons programmes, as oil markets showed renewed signs of oervousness at growing tension in the Gulf.

The latest UN review of Iraq's attempts to build weapons of mass destruction accused Baghdad of brazenly obstructing international inspectors, especially in their efforts to unlock the secrets of the country's biological weapons programme.

Richard Butler, exacutiva chairman of the UN Special Commission set up to insure the elimination of Iraq's weapons of mass destruction, said the biological weapons programme was an area "unredeemed by progress".

His six-moothly report came amid growing uncertainty over eveots in the Gulf. Oil prices, which tumbled on Monday, steadied as traders speculated that the critical report migbt prompt President Saddam Hussein into provocative actions. Some analysts thought he might threaten to pull out of the oil-for-food programme oo which much of the Iraqi population depends. That could cause increased volatility in already nervous oil markets.

Traders were also unsettled by reports from tbe Middle East highlighting the rising tensions in the region. On Monday, gunmen fired oo five UN vehicles in northern Iraq in tbe second armed attack this week involving international observers in Iraq.

Iran yesterday announced new naval manoeuvres before tbe arrival in the Gulf of the Nimitz, the US aircraft carrier that was last week ordered to speed to the region from the Pacific Ocean.

Last night the US announced that air patrols over southern Iraq would be stepped up to stop oo-fly violations.

Ali Shamkhani, Iran's defence minister, said: "We don't see any reasoo for friction [witb tbe US]... but we cannot speak about the belligerenca of the other side."

The UN report could pave the way for further sanctions against the regime. But diplomats at the UN were uncertain what measures might be taken, given divisions within the Security Council over Iraq. Many want to avoid a showdown with Baghdad at a time of regional tensions.

"We will make sure the action is proportionate and measured," said a diplomat. "But we will not allow the Iraqis to think they can get away with everything. Butler is not going to rise to the Iraqis' bait. There is no doubt that Saddam is testing the new Unscom."

Mr Butler said he could not understand why Baghdad had refused to reveal the facts about tbe biological programme and was so insistent in blocking his commission's efforts.

Iraq had failed to respect the inspection rules and tried to exclude inspectors from certain sites while defining new categories of "often very large sites from which the commission inspectors would be forbidden".

Tbe report called on tbe 15-member Security Council to "insist that Iraq meet its obligation to fully disclose all of its prohibited weapons and associated programmes".

"There is no substitute for this wbole truth... this is a crucial requirement," it said.

Oil markets, Page 26

WORLD NEWS

German jobless total hits new record with no sign of reversal

Germany's unemployment climbed to 4.5m after seasonal adjustment last month – another post-war record – with no sign of a break in the trend. The latest figures, up 34,000 compared with August, highlighted the failure of economic growth to reduce jobless totals not seen in Germany since the 1930s. Page 2

Fast-track compromise: The White House has reached an agreement with the House ways and means committee, helping President Clinton's bid for fast-track trade negotiating authority. Page 9

Helms warns Nato: Senator Jesse Helms, chairman of the foreign relations committee, warned Nato expansion would fail if west Europeans did not pay their share. Page 9

Japanese bond market record: Japanese government bonds set new records in Tokyo, as yield on the benchmark 10-year JGB fell to 1.710 per cent after government officials said the country is unlikely to meet its growth target of 1.9 per cent. Page 4; Capital Markets, Page 24

Irish foreign minister quits: Ray Burke has resigned as the Irish Republic's foreign minister and left his parliamentary seat after allegations of corruption. His decision overshadowed the Belfast peace talks. Page 2; Belfast talks, Page 10

Daimler-Benz to adopt euro: Daimler-Benz is to adopt the euro, the new single European currency, when it starts on January 1 1999. Page 2

Quebec separatism poll: Support for Quebec independence among voters in the French-speaking Canadian province is at a three-year low of 41 per cent, said a new opinion poll. Page 5

UK flight delays worsen: Passengers flying to or from the UK had a 26 per cent chance of delays in the second quarter of this year. Page 8

Italian government crisis: Italy's PM Romano Prodi faced a crisis after his neo-Communist coalition partners said it would not back his 1998 budget. Page 16

Sweden ponders tax cuts: Sweden's government is considering wide-ranging tax reforms involving possible abolition of the wealth tax. Page 3

Manila court rules on oil prices: The Philippine Supreme Court came under fresh attack after stopping oil companies raising prices to compensate for the weaker peso. Page 4

Denmark fixes EU poll date: Danes will vote on May 28 in a referendum on the EU's Amsterdam treaty, said prime minister Poul Nyrup Rasmussen. Page 3

China merges state industries: China unveiled a series of mergers in the state steel and industrial sectors. Page 4

Poland sets coalition deadline: Poland's prospective coalition partners have given themselves until the end of next week to form a new government. Page 2

BUSINESS NEWS

Dresdner Bank hit by further upheaval as director quits

Dresdner Bank, hit by boardroom tax investigations, faced fresh upheaval with the resignation of a long-serving board member and a decision by its retiring chairman not to join the supervisory board. Page 17

Frontline, Bermuda-based tanker operator bidding SKr3.22bn ($429m) for Swedish rival ICB Shipping, is taking legal action to prevent ICB pursuing a friendly $309m merger with Greek-owned Astro Tankers. Page 17

European airlines have asked Brussels to protest against a proposed US law that would limit the number of foreign companies which can service US aircraft. Page 16; Political dwarf, Page 14

T&N's share price rise since Federal Mogul's £1.25bn ($2.02bn) takeover approach could increase the value of T&N's latest dividend by almost 60 per cent through a scrip option, an analyst said. Page 22

BTR could face a bill of £480m ($777.6m) for tax and advisers' fees arising from its plan to turn itself from a conglomerate into a focused engineering group, brokers estimated. Page 22

Peugeot-Citroën, French car group, is poised to announce a long-awaited $600m investment in a new Brazilian car plant as part of a drive to step up its global presence. Page 21

Bayerische Vereinsbank set a price of DM85 a share for the first stage of its DM3bn ($1.7bn) capital increase to push through the merger that will create Germany's second-biggest bank. Page 19

Accor, the French hotels, tours and car rentals group, announced net income up fourfold to FFr458m ($77.5m) for the first six months of 1997, in spite of substantial provisions. Page 20

Telefónica shares rallied from sharp falls suffered after investors questioned the Spanish telecommunications group's international strategy. Page 20

Australian Mutual Provident, the country's biggest life insurer, began the countdown to its summer stock-market flotation, saying it could be valued at more than A$11bn (US$8bn). It said 1.8m policyholders would receive an average windfall estimated at nearly A$6,000. Page 17

Daiwa Bank and Marubeni, the trading house, slashed half-year profits forecasts after booking losses on their securities portfolios of Y118.8bn ($976m) and Y17.5bn, respectively. It follows a similar warning last week by Dai-Ichi Kangyo Bank. Page 18

Kemira, Finnish chemicals group, called for greater controls on cheap imports of Russian fertilisers into Europe. Page 19

NCR, the computer and computer software maker, and SAS Institute, the big private software group, are to integrate their data warehousing and data mining technologies which are used to analyse sales and customer information. Page 21

News Corp chief Rupert Murdoch urged all media to resist a push for tougher privacy laws in the wake of Princess Diana's death. Speaking at the group's AGM, he said he did not regret using paparazzi photographs, apart from having paid too much. Murdoch to float Indian TV channel, Page 17 Reuters

Nikko shake-up will transfer global operations to London

By Gillian Tett in Tokyo

Nikko Securities, Japan's third largest broker, is revamping its operations to give London, not Tokyo, responsibility for international operations.

The step, the first taken by any Japanese broker, marks a fresh drive by the company to build international skills ahead of Japan's impending "big bang" financial deregulation.

The company is also planning to take the unusual atep of appointing two non-Japanese to its board of directors.

Masashi Kaneko, the newly appointed president of Nikko, yesterday also said the group would be seeking new collaboration with foreign partners. It already has two joint ventures with Barclays and Smith Barney.

The company decided to base its global operations in London rather than New York because the UK was more convenient for dealing with Asia and the US, Mr Kaneko said.

"We have come to the conclusion that in this globalised era we need international partners," he said. "We want to make the company more multinational, rather than just Japanese, and so I will be recommending to the shareholders that we have new non-Japanese directors."

One of these will be Michel de Carvalho, previously co-chairman of Nikko's European affiliate. Mr Kaneko has put Mr de Carvalho in charge of Nikko group's international operations – the first time a Japanese broker has given a non-Japanese such sweeping powers.

In addition, Nikko would be seeking a US director, Mr Kaneko added. The only other Japanese broker which has a non-Japanese member of the board of directors at present is Nomura, which employs a US national.

The moves come after Nikko became the latest Japanese broker to reshuffle its senior management last week in connection with a racketeer scandal.

Nikko is accused of having paid some Y14m ($115,700) to *sokaiya*, wbo traditionally demand money from companies in exchange for not revealing sensitive information.

The three other leading brokers – Nomura, Daiwa and Yamaichi – have also been entangled in the scandal and reshuffled their management, together with Dai-Ichi Kangyo Bank. Nikko has now removed eight members from its board.

Nikko has reported mixed results in recent years: in the first quarter of this year it recorded a recurring Y1.9bn loss. And Mr Kaneko yesterday admitted the company was likely to face a squeeze in its traditional Japanese brokerage business as a result of Big Bang.

However, the company planned to shift its focus away from broking to asset management and develop an international reach to offer overseas products to Japanese clients, he said.

Nikko opens its doors, Page 18

Sun sues Microsoft over Java 'deception'

By Louise Kehoe in San Francisco

Sun Microsystems yesterday launched a legal battle against its competitor Microsoft in wbat promises to become the rallying point for mounting complaints about the business practices of the world's largest software company.

In a suit filed in a federal court in San Jose, California, Sun, creator of the Java computing language widely used to create internet software, claimed that Microsoft had "deceptively modified" Java to tie new Java applications to its Windows personal computer operating system.

Microsoft responded with a statement that the claims were "unfounded".

The lawsuit is the culmination of months of wrangling between Sun and Microsoft. Java's creator has promoted the technology as a breakthrough which enables programmers to write software that will run on any computer, regardless of the operating system, without modification.

This means, for example, that Java programs could run on the so-called network compnters – low-cost internet terminals – that are being promoted by Sun as well as by Oracle, the second largest US software company, as an alternative to personal computers running Windows.

"Microsoft has embarked oo a deliberate course... to break the cross-platform compatibility of the Java programming environment and to implement the Java technology in a manner calculated to cause software developers to create programs that will operate only on [Windows]," Sun claimed.

Java bas already won broad support in the software industry, with 117 software developers licensing the technology from Sun. The licences compel the developers to adhere to Java specifications to ensure this "cross-platform compatibility".

Sun claims Microsoft has refused to abide by this undertaking. In particular, Sun said Microsoft's new internet browser, Internet Explorer 4, launched last week, had failed to pass compatibility tests required by the Java licence agreement.

Other software developers said Microsoft's alleged actions could splinter the Java standard. "We are now resigned to writing two versions of our software: one for Windows and one for other types of computers," said Gary Steel, president of Netiva, an internet database software developer.

The issue has already sparked broad criticism of Microsoft within the US software industry, renawing calls for anti-trust actioo against it.

Gates to advise on school internet links, Page 10

Markets

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	8149.09	(+48.87)
NASDAQ Composite	1735.94	(+14.08)
Europe and Far East		
CAC40	3064.42	(–13.56)
DAX	4307.39	(+5.29)
FTSE 100	5305.6	(+5.6)
Nikkei	17511.19	(–313.59)
US LUNCHTIME RATES		
Federal Funds	5½%	
3-mth Treas Bills: Yld	5.051%	
Long Bond	101⅞	
Yield	6.242%	
OTHER RATES		
UK: 3-mo Interbank	7⅛%	(7⅛%)
UK: 10 yr Gilt	108.9688	(107.218)
France: 10 yr OAT	100.58	(100.61)
Germany: 10 yr Bund	104.1	(104.15)
Japan: 10 yr JGB	108.99	(108.85)
NORTH SEA OIL (Argus)		
Brent Dated	$20.89	(21.11)

GOLD		
New York: Comex	$331.0	(332.3)
London:	$331.85	(332.35)
EXCHANGE RATES		
Dollar		
New York: lunchtime		
£	1.62095	
DM	1.75475	
FFr	5.89705	
SFr	1.4463	
Y	122.175	
London:		
£	1.6235	(1.613)
DM	1.7539	(1.7622)
FFr	5.886	(5.9245)
SFr	1.4441	(1.4826)
Y	121.865	(121.71)
Tokyo close		Y 121.95
Sterling		
DM	2.8474	(2.8423)

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Opposition-dominated parliament still seems intent on frustrating draft's passage

Russian budget faces rough ride

By John Thornhill in Moscow

Victor Chernomyrdin, Russia's prime minister, will urge the country's unruly parliament today to adopt the 1998 draft budget and a new tax code, helping to put government finances on their soundest footing since the start of market reforms.

But the opposition-dominated parliament still seems intent on frustrating the budget'e passage, with the Communist party calling for a vote of no confidence in the government.

Gennady Zyuganov, the Communist leader, has denounced the budget as "barbaric" and angrily rejected ministers' attempts to negotiate a compromise yesterday, saying parliament could no longer trust the government.

"The law on the 1997 budget was grossly violated. Even after spending was cut, it was fulfilled by only 77 per cent," he said.

In previous years, the government and parliament have colluded to produce wildly unrealistic budgets, leading later to savage cuts in spending and frantic efforts to raise additional revenue.

But this year the government has tried to produce a budget which it has a better chance of fulfilling.

The 1998 draft budget envisages a primary deficit of just 0.43 per cent, growth of 2 per cent and 5 per cent annual inflation.

One western economist said the budget debates were an annual performance in Russia's political theatre which had little impact on government economic policy. Parliament had few powers to hold the government accountable for its actions, he said, while a no confidence motion could prove a double-edged sword.

"The reality is that the government will do what it wants, regardless of what the Duma says," said the economist.

The government's arguments were strengthened by the release of the conclusions of a report from the Organisation for Economic Co-operation and Development, which praised efforts to introduce a more credible and efficient budget in which "expenditure limits are consistent with realistic revenue projections".

Dooald Johnston, secretary-general of the OECD, said the 1998 budget and tax code were "very significant building blocks" required to strengthen the market reforms.

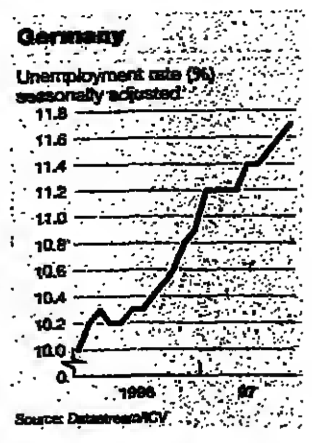
The OECD conceded it had been over-optimistic abont Russia's growth prospects in the past, and said the government should take further measures to encourage the growth of small businesses and foreign direct investment. It should also strengthen the legal basis for tax administration and develop competition policy.

Grigory Yavlinsky, leader of the liberal Yabloko party, said his faction might also back the no confidence motion in the government criticising the government's failure and the economy'e inertia.

"The wheels are spinning, everything is roaring, mud is flying in every direction. There is a lot of smoke and a lot of noise, but the car is sinking deeper and deeper into that bog. This is our reality," he said.

German jobless climbs to 4.5m

Further post-war record gives no indication of a decisive break in upward trend



By Ralph Atkins in Bonn

Germany's unemployment climbed to 4.5m after seasonal adjustment last month – another post-war record – with no sign of a decisive break in the upward trend.

The latest figures, up 34,000 compared with August, highlighted the continuing failure of economic growth to reduce jobless totals not seen in Germany since the 1930s.

Most of the increase came from eastern Germany, underlining the widening ecooomic division between the two parts of the country.

Bernhard Jagoda, president of the federal labour office, said the western German labour market sbowed signs of etabilisation. But the former Communist East Germany remained handicapped by a contracting building sector and by having only a small share of the fast-growing German export sector.

Seasonally adjusted unemployment in eastern Germany in September was equivalent to 19.2 per cent of the workforce, compared with 9.9 per cent in western Germany and an overall German rate of 11.7 per cent.

The political impact of yesterday's figures was tempered by a 64,000 fall in the unadjnsted "headline" unemployment total to 4.31m - still a post-war record for a September. But the relentless upward trend has inteosified calls by trade unions and the opposition Social Democratic Party for job creation measures.

Underlining the increasingly close relationship between the SPD and the unions, Klaus Zwickel, chairman of the powerful IG Metall union, called for a new "alliance for jobs" with an incoming SPD government after next September's federal elections. Earlier this week, Oskar Lafontaine, SPD leader, backed union demands for an end to wage restraint. He argued higher wages would help boost domestic demand.

With analysts saying unemployment may contiune to rise in coming months, the government's summer forecast of a 4.3m average for 1997 is widely expected to be exceeded. The higher-than-expected financial burden is adding to the difficulties meeting this year's public sector deficit target of 3 per cent of gross domestic product, set for membership of the planned Euro currency.

The federal labour office suggested unemployment was likely to average about 4.4m – but indicated additional funds would not be required from Bonn to cover unemployment payments. Bnt public sector finances may still be hit by the extra cost of other social benefits and by the erosion of tax revenues. Fresh estimates on tax revenues are dne to be published in November. The finance ministry refused to comment on speculation that extra savings measures would be needed to cover a DM7.5bn ($4.2bn) shortfall.

Daimler to adopt euro from 1999

By Wolfgang Münchau, Economics Correspondent

Daimler-Benz yesterday decided to adopt the euro, the new single European currency, on Jannary 1 1999.

The German automotive group is one of the first German multinationals to commit itself to the abandonment of the D-Mark on the first day of economic and monetary union.

Daimler is seen as a trendsetter in Germany and in the past has switched to US accounting standards and introdnced executive stock options. The decision to switch to the euro could boost acceptance of the new currency during the three-year transitional period from 1999 until the end of 2001, during which the euro and national denominations will co-exist. Euro banknotes and coins will not be introduced until 2002.

Jürgen Schrempp, Daimler's chairman, said the decision was "basically a signal for our customers, snppliers and partners in industry and public administration that we see a tremendous chance both for Europe and our group [under Emu]". The cost of the switch-over is estimated at DM200m ($112m). Daimler also estimates that the move would rednce its currency exposure by about 30 per cent.

Siemens, the German electronics gronp, has also voted for a switch-over, scbeduled for October 1 1999, to coincide with the company's financial year.

It is unclear whether Daimler and Siemens will be paying their staff in euros. Both companies said yesterday this would depend on the ability of social and public administrations to accept euro contribntions.

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All eyes on Jospin as hours debate comes to a head

Andrew Jack reports on the jostling between employers, unions and government ahead of Friday's unemployment conference

The idea of legislation to cut the working week to 35 hours is clearly anathema to France's employers. As they prepare for a conference next Friday with the Socialist-led government and trade unions, a spokesman for the Patronat employers' group said: "It would be bad for companies, for jobs and for the country.

"We need flexibility, not some Jacobin approach with everything decided by a law in Paris."

The conference, long promised by Lionel Jospin, the prime minister, has created huge expectations as the government, employers and unions struggle to rednce high unemployment.

Louis Viannet, head of the powerful Communist-linked CGT union, warned yesterday of "a very serious risk of disillusionment" if the talks failed to reach firm conclusions. Other union leaders bave suggested that disappointment could provoke a wave of etrikes this autumn.

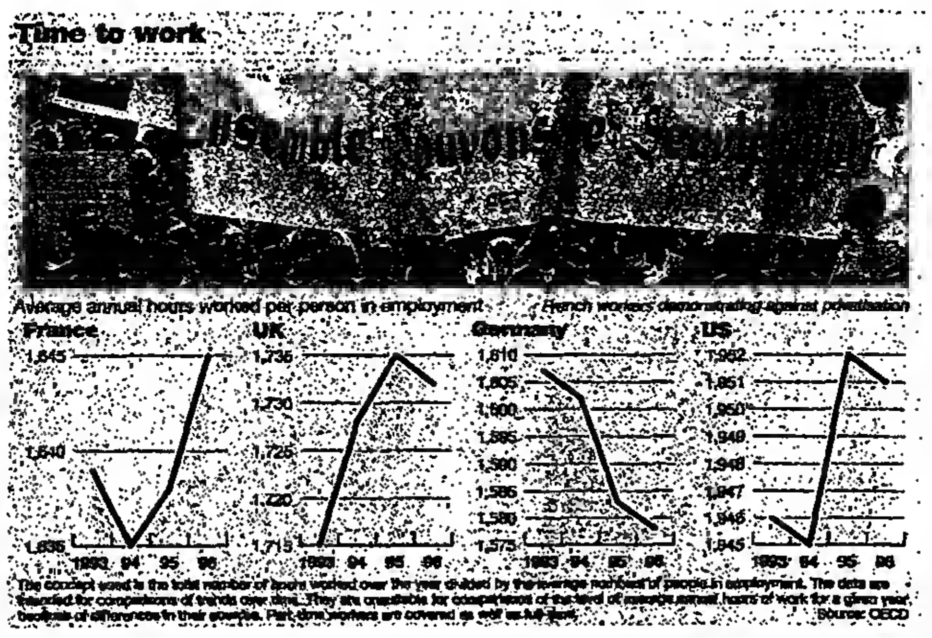
Some unionists hope to use the conference to highlight what they see as the importance of wage increases, notably in the minimum wage of FFr39.80 ($6.72) an hour, at a time of rising corporate profits.

Also under consideration will be early retirement and other measures designed to boost job creation, including a target sought by the Socialists of 350,000 jobs in companies to match an equivalent number in the public sector.

But the topic dominating debete is one of the government's most controversial election pledges: the reduction of the working week from 39 hours to 35 hours without any drop in wages.

For the government elected in June, this will be an important political test. It will also indicate the relative strengths of Martine Anbry, employment minister, who favours tough legislation, and Dominique Strauss-Kahn, finance minister, who argues for a softer, more pragmatic approach.

Time to work



In its election manifesto, the Socialist party argued that a shorter working week was a way for individuals to benefit from productivity increases reaped by companies. Combined with tougher regulations to clamp down on overtime, they hoped the result would be new jobs to fill the gap.

Some economists ehare this view. Gilbert Sept at the university of Aix-Marseille contends that the policy could create 1.2m jobs over the next six years, with the additional social security contributions and lower unemployment benefits offsetting any government subsidies. "Reduced working hours can be effective," be said.

However, the Patronat's spokesman took the opposite view. "It would add 11.4 per cent to salary costs at a time when competition is particularly fierce. And prodnctivity gains would not create jobs," be said.

Behind the public stances adopted by ministers, union representatives and the Patronat, there have been clear signs of a shift towards a compromise in the past few weeks. Mr Jospin argued last month that "35 hours, paid 39, would be anti-economic", while maintaining there should be no salary reductions.

His comments suggest that there will be pressure from the government on unions to keep wage claims low in exchange for agreemeots on reduced working hours. There will probably also be additional state support in the form of tax incentives or lower social security charges to limit the costs to employers.

Ms Aubry said last weekend that nothing would he done without "the principal actors", suggesting a willingness to compromise to ensure agreemeot with the Patronat. That could imply the need for flexibility to reflect the varied circumstances and abilities of husinesses to introduce such changes.

Mr Strauss-Kahn hes hinted that reduced working time over a full year may be a more desirable outcome than e reduction over eacb week. This might give companies more flexibility to cope with peaks and troughs in prodnction and demand for labour.

But there is still a French cultural belief in legislation. "You need laws in France to push people to negotiate," says Mr Sept, pointing out that "nothing happened" after the December 1995 jobs summit held by Alain Juppé, the former centre-right prime minister.

The questioo is whether e lew would set a general framework for discussions, or try to require redneed working hours by a certain date – without which, the unions argue, employers will make good any additional costs by productivity gains rather than hiring new staff.

All eyes will be on Mr Jospin, who is expected to make an announcement on the subject on Friday.

Ireland's foreign minister forced out

By John Murray Brown in Dublin

Ray Burke was forced to resign as the Irish Republic's foreign minister yesterday, bowing under the pressure of repeated allegations of corruption.

Mr Burke also announced his resignation from his parliamentary seat. This leaves the minority government of the Fianna Fail prime minister, Bertie Ahern, facing an awkward by-election in the constituency, which is at the centre of alleged planning irregularities involving Mr Burke.

Mr Ahern was last night expected to move David Andrews from defence to foreign affairs, to minimise disruption et Northern Ireland peace talks, where the foreign minister nominally leads the Irish team. News of Mr Burke's demise largely overshadowed yesterday'e session of the peace talks in Belfast.

Mr Burke's departure appears to bave been the price for the continued support of Fianna Fail's coalition partners, the rigbt-of-centre Progressive Democrats.

The announcement had been largely expected after the Progreseive Democrat leader, Mary Harney, met Mr Ahern on Monday. Last weekend's newspapers carried more stories about Mr Burke's alleged role in the approval of 11 passports to a Saudi businessman in excbange for a promised I£20m ($29m) investment.

Mr Ahern's reluctance to take action against Mr Burke earlier in the face of the developing scandal may raise questions about his judgment, particularly since he knew the details of the allegations when he announced his cabinet in July. Opposition politicians have already seized on the affair to accuse the prime minister of indecisiveness. Only last week he reluctantly responded to public pressure to investigate land deals in North Dublin, where Mr Burke admits to receiving a political donation of I£30,000 from a Dublin builder he had never met.

No one is suggesting Mr Burke benefited directly from the passports scandal when be was justice minister. But the affair is a reminder of the hold that the then prime minister, Charles Haughey, had over his ministers.

In the light of the much larger corruption allegations surrounding Mr Haughey, John Bruton, leader of the conservative Fine Gael party, yesterday called on Mr Ahern to come clean on his role in Mr Haughey'e cabinet.

Fianna Fail is expected to retain the seat in Mr Burka'e North Dublin constituency.

Belfast peace talks, UK News

Polish parties set a deadline

By Christopher Bobinski in Warsaw

Poland's prospective coalition partners, the trade union-led Solidarity Electoral Action (AWS) and the pro-business Freedom Union (UW), have given themselves until the end of next week to form a new government.

For Marian Krzaklewski, the AWS leader, and Leszek Balcerowicz, UW leader, the aim is to find a candidate for the premiership and a policy framework for the new government. Mr Krzaklewski's group controls 44 per cent of parliament's 460 seats, and the UW 13 per cent.

Mr Balcerowicz, the 50-year-old author of Poland's post-1989 shock therapy market policies, is fighting to put a clear reforming imprint on the new administration. He said after the first meeting on Monday that it had "increased the chances of agreement".

Mr Krzaklewski, a 47-year-old computer sciences graduate, said the two sides had reached a "halfway point" in the talks.

Both said, however, that the hardest negotiations were still to come. Mr Krzaklewski has given himself an October 17 deadline for telling Aleksander Kwasniewski, the Polish presideot, the name of the candidate for prime minister. The outgoing government, led by the reformed Communists, is expected to resign oo October 16.

Mr Krzaklewski, who is a prospective challenger for the presidency in 2000, has refused to be prime minister. The UW had suggested he should head the governmeot, with Mr Balcerowicz as deputy prime minister responsible for the economy.

The AWS leader contends that his efforts will be best spent outside the government, keeping the Solidarity trade union in line as well as the potentially disparate 201-strong AWS caucus of MPs.

At the same time Mr Krzaklewski appears to have dropped a plan floated last week for the establishment of a low-key "non-political" administration, which would have kept both leaders and other experienced politicians out of the cabinet.

The UW's greatest fear is that AWS's syndicalist wing will dismantle Poland'e tight fiscal policies, and that privatisation will just he a handout of free shares to the population at large, leaving smokestack industries unreformed. However, the UW has accepted it is not likely to win control such key economic ministries as finance and the treasury, which oversees privatisation.

NEWS DIGEST

Länder in battle for investors

Germany's influential Länder, or regional states, are striking out on their own for the first time in a battle for international investors before the D-Mark is replaced by the euro, the European single currency.

The Länder traditionally rely on a small group of mainly German lenders. But they are now rushing to launch their first international bonds to curry favour with a broader audience of investors before the euro redraws the continent's capital market.

The move highlights how the euro is likely to break down barriers in European capital markets, prompting borrowers and investors alike to look beyond their traditional national borders and markets.

German state borrowers in particular fear they may have to pay more for capital when they lose the cachet of the D-Mark as their domestic currency.

Hesse, the state which contains Germany'a financial capital Frankfurt, plans later this month to launch its first bond to be aimed at an international audience of investors.

It follows Saxony-Anhalt, which became the first federal state to launch a bond aimed at international investors earlier this year in an attempt to boost its profile in the European investor community.

On Friday, Hesse begins a "road-show" in Paris, Amsterdam, London and Frankfurt to cement relations with new lenders and establish its name on the European stage.

Graham Bowley, Frankfurt

■ OPPOSITION SUPPORT

FDP backs Eurofighter

Prospects for the four-nation Eurofighter aircraft project winning German parliamentary approval brightened yesterday after the Free Democratic party, junior member of the ruling coalition in Bonn, confirmed its support.

Comments by Hermann Otto Solms, leader of the FDP parliamentary party, followed signs that some in his party would oppose plans – due to be discussed in cabinet today – for Germany to buy 180 Eurofighters. The crucial votes on the aircraft are expected to be taken in the Bundestag, or lower house of parliament, in mid November. Because the project is part of the federal budget, approval from the Bundesrat, the second chamber representing the states, is not needed.

Mr Solms did not rule out some FDP MPs voting against the project. But Kurt Rossmanith, chairman of the Bundestag defence committee, predicted a significant number of opposition MPs would defy their party's official line and vote for the Eurofighter.

Ralph Atkins, Bonn

■ ROSNEFT SALE

Russian oil sell-off boost

Sidanco, the Russian oil company controlled by the Oneximbank group, has dropped its ownership claims to Rosneft's main production subsidiary, clearing the way for the privatisation of the last big state-owned oil company.

Privatisation officials said Rosneft's undisputed ownership of the Purneftegaz subsidiary should significantly increase the value of the privatisation sale, which is planned to occur within the next six months. Purneftegaz is Rosneft's biggest subsidiary, producing more than 8m tonnes of crude oil a year.

Oneximbank has already expressed an interest in acquiring the whole of Rospeft, but it may face fierce competition from other Russian financial industrial groups and foreign investors.

Oneximbank's chances of raising the necessary finance were increased when Boris Jordan, the American chief executive of the affiliated MFK-Renaissance investment bank, received a visa to return to Russia. Last Friday Mr Jordan was stripped of his multiple-entry visa while leaving Moscow for London.

John Thornhill, Moscow

■ AEROSPATIALE

Plea for equity increase

Yves Michot, chairman of Aerospatiale, yesterday pleaded for an increase in the French aircraft, space and defence group's equity and said an opening up of the company's capital might be a solution.

He told L'Humanité, the Communist newspaper, that it would be desirable for Aerospatiale to increase its equity. "Even if it is capable of achieving positive financial results, its capital is in my opinion completely inadequate to face up to eventual big investments."

His commente appeared to suggest that the sale of a minority of the group's capital remained a possibility, in spite of the Socialist-led government's stated intentions to keep it in the public sector.

Mr Michot also added to growing doubts over the long-awaited merger between Aerospatiale and Dassault, the country's other aircraft manufacturer, suggesting it was not a priority for the government. He argued, however, that the move remained vital to strengthen "France's team".

David Owen, Paris

■ BUDGET APPROVED

Belgium within Emu target

Belgium's centre-left government has approved next year's budget, which aims to cut the deficit to 2.3 per cent of gross domestic product, comfortably within the 3 per cent target for countries wishing to participate in the European single currency.

The budget – which did not raise taxes – focused on the need to cut Belgium's high jobless rate by reducing employers' social security contributions by BFr6bn ($165m) from next year. Funds have also been allocated to the justice department, which has been under fire following bungled efforts last year to solve a series of child sex abuse and murder scandals. Its budget will increase by BFr8bn over three years, to fund legal reforms. Jean-Luc Dehaene, prime minister, also announced far-reaching changes to the organisation of Belgium'e police forces.

Emma Tucker, Brussels

■ SPANISH POLITICS

Former PM quits race

Felipe González, Spain'e former Socialist prime minister, has announced he will not be a candidate for prime minister in the next general elections. Once Spain's most popular politician, Mr González was prime minister from 1982 until 1996, when he was replaced by José María Aznar of the centre-right Popular party, which rules in a minority government.

General alections are not due to be held until 2000, although Mr Aznar may call them earlier. Mr González is still expected to run for re-election as a parliamentary deputy.

AP, Madrid

■ BULGARIAN PRIVATISATION

Foreign firm to speed sales

Bulgaria plans to speed up privatisation by using foreign consultants to handle more than 80 per cent of sell-off deals. Alexander Bozhkov, deputy prime minister, said yesterday that under the new scheme more than 80 per cent of the privatisation deals would be concluded through a foreign consultant firm, while the country's Privatisation Agency would have mainly co-ordinating and controlling functions.

Reuters, Sofia

Social Democratic government aims to spike opposition party's election guns

Sweden may axe wealth tax in sweeping reform

By Tim Burt in Stockholm

The Swedish government is considering a wide-ranging tax reform programme that could involve abolition of the country's wealth tax, and tax cuts for low- and middle-income earners.

Erik Asbrink, finance minister, has begun discussing proposals witb cabinet colleagues. If accepted, they would represent the first significant tax-cutting measures by the left-of-centre Social Democratic govarnment since 1991.

The move signals an attempt by the SDP to wrest the initiative from tha opposition Moderate party, which is planning to make tax reform a central plank of its campaign in the run-up to next year's general election.

Earlier this week, Carl Bildt, Moderate party leader, vowed to cut taxes by SKr171bn ($22.8bn) over three years if he won tha election, due next September.

Mr Asbrink, architect of the 1991 reforms whicb cut Sweden's income tax levels, warned the Moderate party proposals were uncosted and risked destabilising Sweden's public finances.

But he said the present strength of the Swedisb economy could enable the SDP to reduce taxes for low- and middle-income earners in the medium term.

He hinted, moreover, that the government might abandon the 1.5 per cent wealth tax levied on the assets of high-income earners.

The government has already announced a limited reform of the wealth tax levied on shareholdings, whicb was widely blamed for prompting an exodus of A-listed companies to the unlisted O-list this summer.

"It will be difficult to maintain the wealth tax as it is today," said Mr Asbrink. "It would be wise to have a rather broader review, not just re-examining wealth tax but income taxes as a whole. Discussions are under way."

He was speaking ahead of today's first parliamentary confrontation between Mr Bildt and Göran Persson, prime minister, since Mr Bildt returned from his role as international peace envoy in Bosnia earlier this year.

The finance minister claimed his tax reform plan did not clash with the policy adopted at the SDP congress last month, when Mr Persson told party sctivists that tax cuts would receive low priority during the election campaign.

Reforms would be considered only after the election, according to Mr Asbrink.

He said prospects for tax cuts had been helped hy last month's budget, which be described as "containing Europe's tightest fiscal policy".

Althougb tbe SDP congress approved apending measures to ease unemployment and release additional grants to local authorities, Mr Asbrink emphasised they would not breach Sweden's previously announced SKr720bn spending ceiling.

Erik Asbrink: economy could withstand tax cuts

Commercial TV on air in Hungary

By Anatol Lieven in Budapest

Hungary launcbed its first commercial television channels this week, only three months after international consortia won the bidding process but several years after the sector opened up in the rest of central Europe.

The time lag reflects a struggle for the proceeds of Hungary's lucrative and fast-growing television advertising sector. Tbis was reflected in the Ft12bn ($61.5m) and Ft12.5bn bids for the two channels, the highest in eastern Europe to date.

The MTM channel was won by the MTM-SBS consortium, including MTM Communications, Telemüncben and Scandinavian Broadcasting System, which is 22.8 per cent owned by Walt Disney.

The second winning bid was from Magyar RTL, a consortium of Luxembourg-based CLT-UFA, Raiffeisen Unicbank, the Hungarian telephone company, Matav, and Pearson, whicb owns the Financial Times. Their station, named RTL-Klub, has taken over the former Soviet military channel.

The two consortia heat bids from Central European Media Enterprises, CEME, which already controls several stations in the region, alleged irregularities in the state's awarding of the contracts. It has since bought a majority stake in TV3, a small Hungarian cable broadcaster.

Under the terms of tbe bids the winners had to go on air by this week, and have had little time to prepare. Blaming technical problems, RTL will not begin its regular programming ontil October 27. Until then it will rely mainly on films.

A spokesman for ORTT, the national TV and radio authority, said the decision on the bids "was made on the basis of bow the successful candidates can serve universal and Hungarian values".

What this means in practice is unclear. Some analysts say MTM will aim more at family audiences and RTL at youth. Both channels will compete with the two channels of MTV, the existing state hroadcasting network.

Until now MTV has controlled about 90 per cent of Hungarian TV advertising. Spending on TV advertising doubled in 1996 to $188m, and is expected to increase at a slower hut still impressive rate for the next few years.

At around 9m people, the Hungarian audience is smaller than that in Poland and the Czech Republic, but Hungarian advertising expenditure is the higbest per capita in the region.

Hungarian TV executives admit four terrestrial channels are a considerable number for the relatively small country, and that competition will be fierce.

Brussels job creation targets worry ministers

By Michael Smith in Luxembourg

European employment and social affairs ministers expressed reservations yesterday about setting job creation targets as part of a European Union drive to cut unemployment.

Although they gave a generally warm welcoma to European Commission proposals which are to be put to a jobs summit next month, several ministers outlined concerns about the targets suggested by the Commission.

Brussels has put forward a series of proposals which it says could lead to 12m new jobs in five years and a cut in the EU-wide unemployment rate from 10.6 per cent of the workforce to 7 per cent.

France, Germany and the UK are all keen to see that tbese numbers are not adopted as inflexible targets, and they do not want the summit to be dominated by discussion of them. Denmark and Belgium are among other countries with reservations about targets.

Speaking after a meeting in Luxembourg, Andrew Smith, UK junior minister for employment and disability rights, said there had been a move away from "arbitrary EU-wide numerical targets and a shift in thinking towards measures which could create the jobs".

The Commission has suggested various measures including reducing taxes on labour, improving labour market flexibility and boosting training. Mr Smith said targets could be seen as disconnected from economic realities.

Martine Aubry, France's employment minister, also suggested the summit should concentrate on getting unemployed people back in jobs or training witbin a year, and young people within six months.

Jean-Claude Juncker, prime minister of Luxembourg, whose country is the current holder of the rotating EU presidency, said the main focus should be on the guidelines by which the EU hoped to acbieve job creation.

Supporters of targets include Spain and Sweden. The sceptics' guarded language suggest the targets may remain in place after the end of the summit. Few countries are likely to want to champion a campaign to get rid of the targets, since this could lead to charges the jobs drive lacks teeth.

Denmark fixes date for EU treaty referendum

By Hilary Barnes in Copenhagen

Danes go to the polls on May 28 next year to vote in a referendum on the European Union's Amsterdam treaty. The date was announced yesterday by Poul Nyrup Rasmussen, prime minister, in bis address at the opening of the new session of parliament. He also announced measures to curb the growth of private consumption.

These include an extra allocation by all wage earners of 1 per cent of income to the National Pension Fund in 1998. The payment will be deductible for income tax purposes.

If the minority centre-left government is unable to obtain support from the main centre-right parties for the proposed economic measures, it is expected to call a winter election.

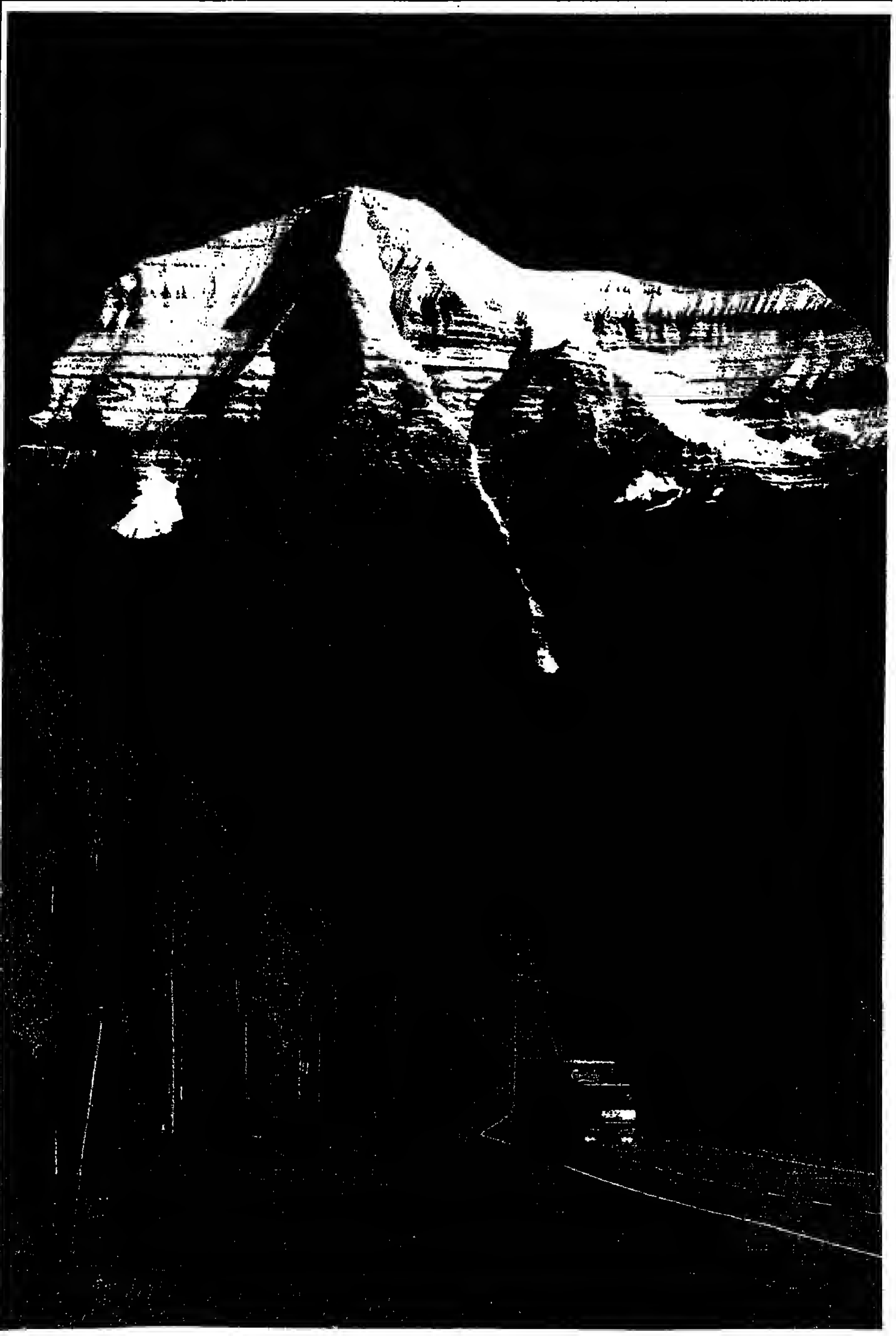
Recent opinion polls suggest a majority of Danes support the Amsterdam treaty, although about 30 per cent have yet to make up their minds.

Denmark caused consternation in Europe in 1992 when it rejected the Maastricht treaty in a referendum. But the following year it endorsed the treaty in a second referendum after the government won several unilateral opt-outs, including an opt-out from European economic and monetary union.

Mr Rasmussen warned yesterday that the country would "be placed on the sidelines" if the Amsterdam treaty was rejected.

The special pension fund allocation next year will add DKr4bn ($600m) to savings, knocking about 0.7 per cent off private consumption. A second measure will increase the stamp tax on supplementary mortgage loans (which raise cash for private expenditure).

The government predicted in August that private consumption would rise 2.9 per cent next year, with gross domestic product climbing 3.1 per cent.



Yields fall after fresh Tokyo admissions on growth target

Government bonds set new records

By Gwen Robinson in Tokyo

Japanese government bonds set new records in Tokyo yesterday, as the yield on the benchmark 10-year bond fell to 1.710 per cent.

This followed fresh admissions by government officials that the country was unlikely to meet its official economic growth target of 1.9 per cent in the fiscal year ending March. The bond market received a further boost from afternoon comments by Hiroshi Mitsuzuka, finance minister, that economic stimulus measures under consideration were likely to focus on tax cuts and property tax reform, rather than a substantial injection of public funds.

The record-breaking performance of Japanese government bonds (JGBs) in recent weeks highlights increasingly divergent views between economists on the direction of the economy.

Richard Werner, at Jardine Fleming Securities, has predicted a rapid recovery of the economy within the current fiscal year and an accompanying bond crash "of US proportions", with yields surging to as much as 4 per cent.

However, amid the stream of gloomy economic data such as the most recent Tankan quarterly survey on business conditions, the consensus view is swinging behind the bond bulls.

William Campbell, fixed income strategist at JP Morgan in Tokyo, said: "If the situation worsens, people will definitely keep buying JGBs, and the situation is definitely deteriorating."

Mr Campbell, who predicted earlier in the year that JGB yields would reach 1.5 per cent within the year, said several factors would continue driving JGBs.

First, any attempt by the government to stimulate the economy was unlikely to have substantial impact.

"Japan's surging deficit and ageing demographics threaten the long-term viability of the economy, ... we see no chance of deficit-financed fiscal stimulus and at best, any stimulus measures will be revenue-neutral."

Second, the growing stream of large-scale corporate failures, under the government's "big bang" financial reforms and the new willingness of banks to pull the plug on troubled creditors, would buoy JGBs.

In addition, there was what Mr Campbell termed as new "crisis" sectors, such as medium and small brokers, struggling under increasingly fierce competition, and retailers, who were hard hit by the impact of the April 1 sales tax increase.

The poor performance of the stock market is also fuelling interest in JGBs. As of September 30, the average of the Tokyo Stock Exchange main section had fallen to just 1 per cent above its post-bubble era low of June 1995, when the Nikkei 225 average was at 14,500.

Recent poor economic data had reinforced prospects that many companies would lower earnings forecasts for the business year to March and a worsening of stock market conditions would undoubtedly benefit JGBs, Mr Campbell added. Separately, European brokers yesterday confirmed reports that the Bank of Japan had last week signalled its readiness to intervene in the JGB market to avert a possible liquidity squeeze.

See International Capital Markets

Manila court under fire over oil prices

By Justin Marozzi in Manila

The Philippine Supreme Court came under fresh attack yesterday after intervening to prevent oil companies raising prices to compensate for a weaker peso.

The court's 30-day temporary restraining order prohibiting any new price increases was quickly condemned by executives in the big three oil companies of Petron, Shell and Caltex and the Federation of Philippine Industries.

"What have we done wrong?" said Oscar Reyes, president of Shell. "We're just attempting to price our products to reflect new realities. I think we have to recognise that present price levels are based on an exchange rate of 31.6 pesos to the dollar."

Domestic oil prices have risen by about 8 per cent compared with the peso's depreciation of 36 per cent since the currency crisis took hold in July. Under continued pressure yesterday, the peso touched another record low of 35.9 pesos to the dollar. At this rate, said Mr Reyes, the group was losing 12m pesos ($334,000) a day. Shell would be seeking an urgent motion for reconsideration.

The domestic oil sector was deregulated in February, but companies have come under heavy government pressure not to raise prices in the wake of the assault on the peso. "In effect the Supreme Court has acted as a regulator and put us in a worse position than when we were regulated," said one senior oil executive.

News of the intervention came as transport workers in militant trade unions staged a strike which crippled travel in eight Philippine cities. Workers called for a reversal of oil price increases and a legislated wage increase. Economists warned of the danger of caving in to populist pressures in the run-up to presidential elections next May.

The Supreme Court's intervention is the latest such move. Earlier this year the Supreme Court overturned a government contract to privatise the Manila Hotel. The court subsequently cancelled the award of the contract to a foreign-led consortium on grounds of "national patrimony", and awarded it to a local group that had bid less. Many observers believe its powers should be trimmed through constitutional amendments.

"It's just a shame the Supreme Court can't leave things like prices to the market," said a western diplomat. "The more it interferes in the market, the less the international community will think the Philippines is a sensible place in which to do business."

In a related development, Heherson Alvarez, a senator and likely presidential contender, yesterday filed a charge of criminal complaint against Petron, Shell and Caltex, for allegedly breaking a law against cartels, and warned the groups' chief executives could face three years' imprisonment if found guilty.

Malaysian banking faces pain, not failure

Banks and finance companies may be forced to consolidate or perish. **James Kynge** reports

Echoes of Thailand are starting to resound through Malaysia's financial community.

Late last month, Malaysia's largest finance company suffered a two-day run by depositors. Company managers are debating which banks may be too risky for their savings. Nervous banks and finance houses are locked in the early stages of a bidding war in which depositors are being wooed with offers of successively higher interest rates.

These tell-tale signs of depositors' unease also presaged Thailand's banking crisis and led ultimately to the suspension of 58 of the country's 91 finance companies.

In spite of the similarities, bankers and banking analysts in Kuala Lumpur do not foretell a crisis of Thai proportions. But there is likely to be an acutely painful couple of years during which loan losses spiral upward and some weak banks and finance companies are forced to seek mergers with stronger counterparts, analysts say.

"Potentially large loan losses in the financial sector would weaken...the economy's medium-term growth prospects," said Standard & Poor's, the international credit rating agency, in a recent report.

Unlike Thailand, Malaysia's problem is not that its companies have borrowed heavily abroad. Net external debt, including that of the private sector, amounts to a prudent 10 per cent of exports. Kuala Lumpur's weakness is that its financial sector has lent massively to local companies, many of which are expected to face cash flow problems as the wider economy slows late this year and next.

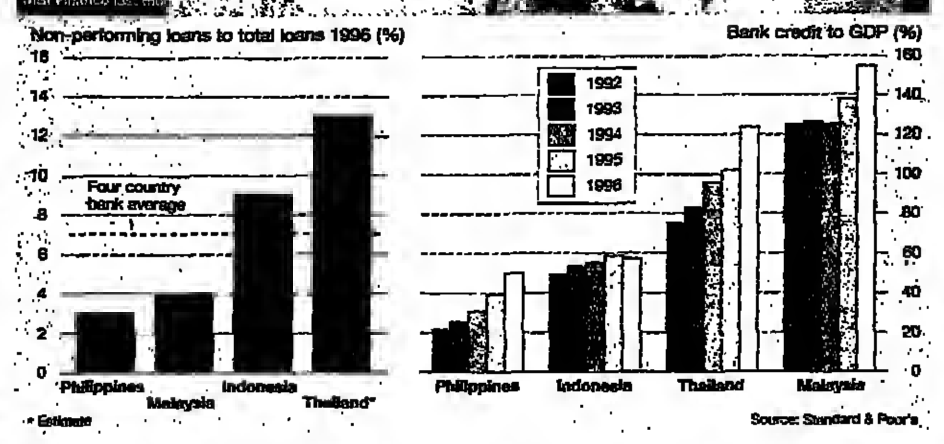
Total credit is set to climb to 170 per cent of gross domestic product by the end of this year which, by a significant margin, would represent the highest level of domestic indebtedness in any south-east Asian "tiger" economy.

Simon Maughan, head of research at brokers W.I. Carr in Kuala Lumpur, believes that bad debt pressures will combine with the central bank's policy of promoting financial sector mergers to usher in a phase of consolidation.

"There is a general feeling that 40 finance companies is about twice as many as you need. The feeling is that you will see half this number by 2000," Mr Maughan said.

Malaysia: in line for banking sector shake-out

Depositors besiege MBf Finance last month



Source: Standard & Poor's

Finance companies are regarded as the most vulnerable part of the banking sector. Typically, they borrow at higher rates than banks and lend to riskier projects. They are deemed to have suffered badly from lending for share purchases in a stock market which has lost more than one-third of its value this year.

In addition, finance companies are exposed to debts in a property sector which next year will be hit by serious glut. MBf Finance, the company hit by a run on deposits last month, has 29 per cent of its outstanding loans to the property sector, according to executives.

But even as the weight of bad debts grows heavier, finance companies will be made to leap successively higher regulatory hurdles imposed by the central bank, Bank Negara. The bank has decreed that only those finance houses with shareholders funds in excess of M$600m (US$178m) on January 1999 will be allowed to tap the crucial interbank market for funds. By this reckoning, only a handful of finance companies are tipped to survive beyond 1999.

The situation is similar in the crowded banking sector, in which 37 commercial banks serve a population of just 20m. Many "tier two" banks – those with shareholders funds of less than M$500m – have been lending furiously over the past two years in an effort to join the ranks of the 11 "tier one" banks.

But the quality of this lending is dubious and when debtors start to default on loan servicing, the tier two banks are expected to be hit hardest. The truth is that as soon as depositors get wind of a bank in trouble, they will rush to reclaim their savings.

"In two or three years' time, there will probably be fewer than 10 banking and finance groups in Malaysia," said one banker. "The mergers will create large financial groups but they will not be so active for a few years because they will have to absorb a lot of bad debts."

Analysts said non-performing loans, those on which interest is no longer being paid, may already amount to about 7-8 per cent, up from 3.9 per cent at the end of last year. Most analysts assume that the largest groups, such as Maybank, the RHB group and Public Bank will survive the consolidation.

The chances of a systemic banking failure, such as is unfolding in Thailand, are considered remote. Malaysian banks have long been profitable and their capital adequacy ratios stand at about 10 per cent – higher than the 8 per cent prescribed by the Bank for International Settlements in Switzerland.

Launch of exchange will mark milestone for country's markets

TIME catches up with Taiwan futures dealers

By Laura Tyson in Taipei

TIME is catching up with Taiwan's illicit futures industry, a free-wheeling activity which once thrived after dark. The soon-to-be-inaugurated Taiwan International Mercantile Exchange (TIME) will, possibly within a month, open its doors and bring into the light an activity until now shrouded in darkness.

When the government finally launches the country's first official futures exchange, it will be a milestone in the evolution of Taiwan's financial markets.

Last-minute technical delays may delay the opening but, when the exchange does open, there will be only one product: Taiwan stock index futures, followed later by a variety of financial and commodity-based products.

"This will provide local companies with an efficient way to hedge their risks and help create an integrated financial market," said Richard Chen, president of TIME.

Lin Hsiao-da, formerly chairman of the Taiwan Stock Exchange (TSE), was elected last month to head the new exchange. He will take charge of a 15-member board of directors and an estimated 150 staff. Daily trading hours will follow those of the Taiwan Stock Exchange (TSE) but will close 15 minutes later, to meet the needs of hedgers.

Taiwan authorities attracted controversy earlier this year when they tried to stop international futures exchanges, including the Chicago Board of Trade and the Singapore Mercantile Exchange, launching their own Taiwan-based products before Taiwan had set up its own exchange.

Regulators had feared offshore-traded products would increase volatility on Taiwan's stock market and take business from the island's planned exchange.

The saga of futures trading in Taiwan begun in the late 1980s when underground futures brokerages proliferated. The government cracked down in the early 1990s, shutting futures trading until 1994 when brokerages licensed to trade certain overseas-listed futures on behalf of Taiwan clients were allowed to set up shop.

In March 1997, the national legislature passed the futures trading law, paving the way for a long-awaited domestic futures exchange. The organisational structure and rules were decided after consultation with several international exchanges, said Mr Chen, who describes the framework as "similar to the TSE, but closer to the US model in structure".

The exchange is set up as a company with T$2bn (US$70m) paid-in capital. A 25 per cent stake is allotted to each of four sectors: futures, securities, banking and related agencies including the TSE and the Taiwan Securities Central Depository, a clearing house. Shareholders number 213, of which about five are foreign, the biggest being the TSE with a 5 per cent stake, the maximum allowed by law.

There is no membership system as such allowing the trading of seats, but rather a system based on contractual agreements between the exchange and institutions seeking to trading there. Some 200 "members" are expected and initially, no limit will be imposed on the number who may join, Mr Chen said.

Securities companies may apply to join the exchange, regulated by the Securities and Futures Commission (SFC), but unlike specialised futures brokerages their trading scope is restricted to domestic stock index futures. Clearing members must have minimum paid-in capital of T$200m (US$7m) plus an additional T$50m in escrow.

NEWS DIGEST

Indian growth 'below target'

India's economy will undershoot government targets of 6.8 per cent growth in gross domestic product this fiscal year, with a 5.5 per output cent rise more likely, according to the Centre for Monitoring the Indian Economy (CMIE), an independent research company. The CMIE's pessimism for the year to March is based partly on the absence of a broad-based industrial recovery after more than a year's slowdown. Its forecast tallies with those of many private sector economists and of the National Council of Applied Economic Research, another autonomous agency, which recently cut its growth projection to 6 per cent from 6.6 per cent.

Though CMIE economists reported "firmer signs of recovery" in some industrial sectors, including textiles, fertilisers and power generation, they said the recovery remained patchy.

It also suggested that higher than budgeted official spending and large transfers from Delhi to the state would lead to a "much higher" fiscal deficit for 1997-98 than the target of 4.5 per cent of GDP.

The government has admitted that tax receipts, notably from indirect taxes, have been sluggish in the first half and officials have suggested there would be some slippage on the deficit. *Mark Nicholson, New Delhi*

■ RESTRUCTURING CHINA

Industrial mergers announced

China yesterday announced a series of mergers in the state steel and industrial sectors, a signal to other government companies to press ahead with rationalisation. Restructuring of regional state-owned enterprises follows President Jiang Zemin's pledge last month to accelerate reform of loss-making state industries.

The People's Daily, the official Communist party newspaper, reported that in Fujian province on China's south-east coast, 12 profitable companies in the machinery, light industry, chemical, pharmaceutical, motor and plastics sectors were merging with 38 other state companies. The mergers involve assets of Yn2.79bn ($337m) and about 18,600 workers, but the article gave no details of redundancies associated with the reorganisation.

The newspaper also reported that Hubei Yegang Group, a bearings maker in central China, would merge with the Huangshi Number 2 Steel Group and was looking to take over three other medium-sized and small state-owned enterprises. *James Harding, Beijing*

■ MONGOLIAN PACKAGE

Donors pledge $250m in aid

Donor countries and international organisations pledged $250m in a fresh aid package for Mongolia yesterday, giving a strong message of support for its market-economy reforms. The figure was $40m more than the minimum sought by the World Bank and Japan, co-chairs of a one-day meeting of the Mongolia Assistance Group, the World Bank's Ngozi Okonjo-Iweala said.

The group comprises 20 states, including the US, Russia, China and South Korea, as well as six international organisations, such as the International Monetary Fund, the European Union and the Asian Development Bank. Japan pledged $60m of the total. "This aid package shows a strong support for the Mongolian government's programme, particularly its efforts to stabilise the economy," said Mr Okonjo-Iweala. The package for 1998 was also above the $212m for 1997.

Mongolia's finance minister, Puntsag Tsagaan, said the economy was showing positive signs in spite of a dip in world prices for copper and cashmere. *Reuters, Tokyo*

NEWS: WORLD TRADE

Eximbank wins House backing

By Heather Bourbeau in Washington

The US House of Representatives has voted to extend the charter of the Export-Import Bank. House members praised the vital role the bank plays in providing credit and loan guarantees for US business investing abroad. "We must not unilaterally disarm ourselves in this important global economy," said Doug Bereuter, a Republican from Nebraska.

However, the fate of Eximbank is not totally secure as tbe Seuate still has to vote on foreign operations appropriations for the 1998 fiscal year. The future of the Overseas Private Investment Corporation is also in the balance as its reauthorisation and budget allocations remain to be decided.

Budget pressures and leadership issues at the Export Import Bank and the Overseas Private Investment Corporation have led to crisis-level budget reductions. The Clinton administration granted a temporary extension of the agencies' operations until October 23.

In the budgetary allocations, Eximbank is likely to be hit harder than the more autonomous Opic. Although Eximbank's cbarter renewal is expected to pass the Senate, its budget will be significantly reduced. The administration had earmarked $632m, a $94m reduction from last year's budget.

Ed Rice of the Coalition for Employment tbrougb Exports believes the expected budget constraints will force Eximbank into a budget crisis as early as February next year. Business coalitions are recommending that the Clinton administration transfer funds from other federal budgets so that Eximbank can meet its commitments in certain markets, including Russia.

David Carter at Eximbank contends that small and medium-sized businesses will not be hit by the anticipated budget difficulties, but the bank has discussed limiting its involvement in riskier markets. An integral part of Eximbank's charter calls for the financing of projects in markets that private banks might avoid, hut which offer opportunities for US exports. Opic, on the other hand, is self-sufficient. Its budget comes from the fees US companies pay to the corporation, not from the congressional appropriations budget.

Any direct appropriations from Congress for Opic's administrative costs are repaid by the agency before the end of a fiscal year. Opic has requested $32m for 1988 for administrative operations, as well as hudget authority to access the agency's reserves in the Treasury. In 1996, Opic earned $210m above operating costs. For 1998, Opic is asking to retrieve $60m of tbose reserves. Witbont this authority, the corporation, "will be squeezed, hut not to the point of denying insurance," according to Mr Rice.

£3.5bn in defence offset deals on show in UK

By Alexander Nicoll, Defence Correspondent

Executives from 50 international defence companies today meet several hundred British suppliers for an unusual conference designed to belp the foreign contractors meet their £3.5bn ($5.7bn) obligation to place "offset" orders in the UK.

The event at Llandudno, Wales, called Offset UK, is almost certainly the biggest of its kind. It is being staged jointly by the Welsh Development Agency, the Defence Manufacturers Association and tbe British Defence Manufacturers Offset Group.

Britain, like many countries, requires that, if the government places defence procurement orders abroad, such as for Apache belicopters or C130J military transport aircraft, the foreign contractors agree to place orders for the same value with UK companies.

While the UK does not enshrine offset obligations in legal agreements with penalty clsuses, as some countries do, officials say that foreign contractors, which are mainly American, take the requirements seriously and have generally fulfilled them.

"Offshore companies appreciate that it is in their interest if they want Britain to continue with open procurement policies," said an official of the Defence Export Services Organisation (Deso), a Ministry of Defence body which monitors compliance.

The current £3.5hn outstanding obligations are expected to be fulfilled over the next 10 to 12 years, with £300m of hnsiness placed over the past year. The 19 procurement programmes with outstanding obligations had total offset requirements of £4.8bn, meaning that £1.3bn of orders have already been placed under them.

Within the total outstanding, £700m is to be fulfilled with orders directly related to the relevant defence contract, and £2.8bn can be met by a range of British companies, tbougb mnch of the business will be defence or electronics-related.

Currency pains fail to dim hopes of gains by project investors

Asean turmoil may eventually benefit infrastructure deals, says John Ridding

Thailand last week cancelled a $3bn mass transit contract; Indonesia put a long list of power plants on hold; and Malaysia delayed the Bakun dam.

Across south-east Asia the brakes are being applied to infrastructure projects as currency turmoil, slowing growth and fiscal constraints take hold. "There is going to be a downturn in demand in many of these countries," said Philip Crotty, head of Asian project and export finance at Deutsche Morgan Grenfell.

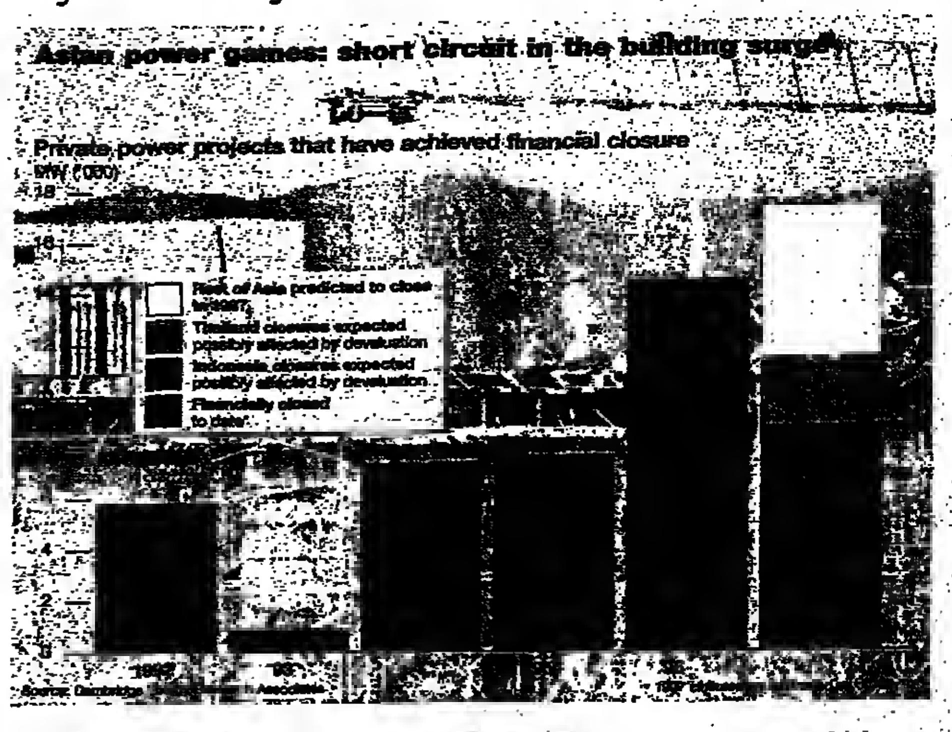
For foreign infrastructure companies seeking growth outside tbeir stagnant domestic markets, such concerns may tarnish the eldorado of south-east Asia.

Bnt there may be some consolation. Economic pressures on regional governments could stimulate reforms in contract procedures and financial markets, providing long-term benefits from a short-term shock.

For the moment, attention is focused on the casualties, such as Hopewell Holdings' Bangkok mass transit contract. With a cooling off period, the announcement may not end the scheme or even finish the participation of the Hong Kong company. But it does underline common problems of currency devaluations and slowing growth across the region since July when Thailand admitted defeat in defence of the baht.

Amid tbe currency collapse and the crisis in the property sector, which reduced the value of proposed developments along the mass transit route, bankers baulked at supplying funds without higher route tolls and a longer concession. But Hopewell's requests for these to the Thai government fell on deaf ears.

Other scbemes are also being affected. Indonesia last month postponed 14 of 29 power plants in an attempt to curb spending. Malaysia is pressing ahead with its airport, but has shelved several other schemes. "Many big projects are going to be looked at again," said Daniel Yergin of Cambridge Energy Research Associates.



Despite the setbacks, sentiment in the industry remains optimistic. "I still think the prospects are good in this region," said Ed Wallis, chairman of PowerGen, the UK ntility which has seen an Indonesian project delayed. "To us, this is an irritation, a hiccup, bnt we have to operate with a long-term strategy and this is a long-term investment." Mr Wallis estimated that by 2003, the company will be reaping profits of £150m ($242m) from Asian plants.

Jean-Louis Diefenbacher, chief executive of the Asian division of Générale des Eaux, the French utility, thought any downturn in south-east Asian economies will prove temporary. "These economies are fundamentally solid. We do not see excessive risk and we do see underlying demand."

Estimates of demand all point to significant expenditure. Harinder Kohli, senior operations adviser at the World Bank, said regional economies require some $1,200bn of investment in infrastructure over the next 10 years to avoid growth bottlenecks. This forecast, he said, is little affected by the present financial upheaval.

The problem, as Mr Kohli saw it, remained one of supplying investment. And this required adjustments from both the public and private sector. Companies engaged in infrastructure projects will have to increase their emphasis on risk management and ensure protection in contracts. "Before, currency was not really an issne," said the project finance director at one US investment bank.

"In Thailand, for instance there was often no currency link in power purchase agreements. That is all going to have to change. Foreign operators will have to ensure they are hedged against exchange rate risk."

Investors bave already been adapting. PowerGen's Thai project, which was being finalised when the crisis erupted, bas been adjusted to take account of baht's plunge. "The overall return on the project has fallen by a smidgeon, but the risk has fallen dramatically because the currency has realigned at a much lower level," said Mr Wallis.

Bigger adjustments may be required in the public sector. "The regional problems mean there are even less public resources," said Mr Kohli at the World Bank. "That means governments are going to have to attract more private capital." To do that, they will have to tackle disincentives to investors, remove regulatory obstacles, increase transparency and reform financial systems to enable the matching of revenue streams and funding.

There has been progress. Last month, China signed a $600m agreement with a consortium headed by Eléctricité de France for the Laibin B power plant, a build, operate and transfer scheme billed as a model for other Chinese infrastructure projects. Mr Wallis at PowerGen cites improvements in transparency in India, while the recent introduction of competitive tendering for a water supply contract in Manila has been welcomed.

"Even though we did not win, we should like to see the example followed," said Mr Diefenbacher at Générale des Eaux. He thought the economio pressures and reduced budgetary resources could encourage further liberalisation. "The situation could accelerate moves towards the privatisation of public utilities," he said.

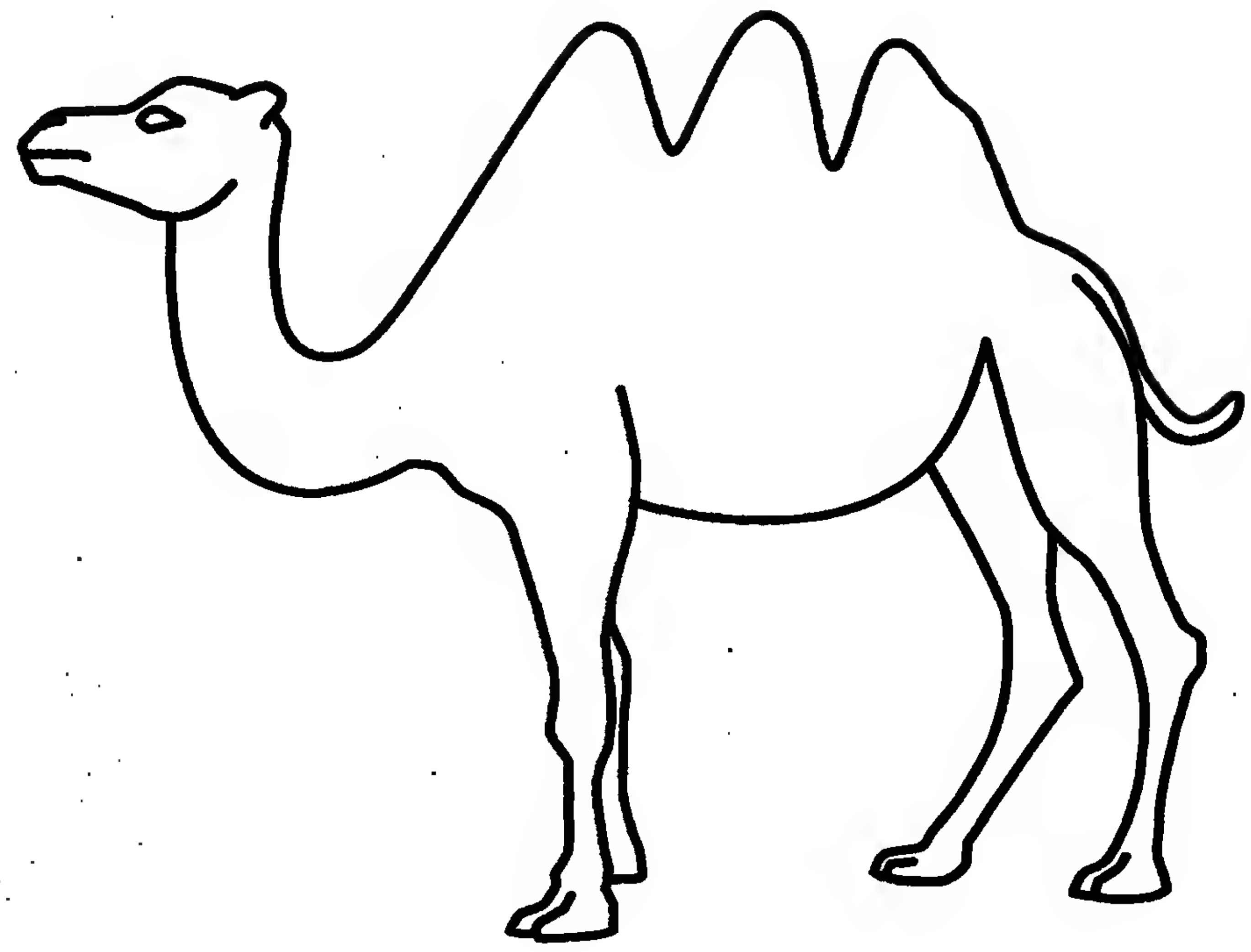
Long-term domestic funding for private projects, however, remains a serious constraint. While regional equity markets have seen rapid expansion, debt markets have lagged behind. "Even high income countries like Korea are only beginning to develop fixed-income markets," said Stijn Claessens at the World Bank for East Asia.

With banks weakened or adopting a more conservative stance in the wake of the regional crises, and with the public purse pinched tight, this weakness must now be addressed. "Savings rates are about 35 per cent, some of the highest in the world, but private capital only accounts for about 10-15 per cent of infrastructure investment in east Asia," said Mr Kohli.

Steps are being taken. Most Association of South-East Asian Nations (Asean) states are developing secondary mortgage markets which can act as a source of long term funding and bond issues. Expanding pension schemes, and increased private participation, are helping to develop institutional investors.

Such reforms are moves in the right direction, said Mr Kohli. But they must now be accelerated if the region's infrastructure is to be funded, and if its economies are to avoid a long term growth constraint on top of the present setbacks.

The new 3-cylinder ECOTEC engine goes 800 km between drinks.



Exceptional fuel economy (5.8 l/100 km) is one reason why the Opel Corsa with its new 3-cylinder ECOTEC engine won top honors among the more than 200 cars recently compared by the VCD (Transport & Environment Association, Germany).

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NEWS: INTERNATIONAL

Sharon, the hard man who delivers for Netanyahu

By Judy Dempsey in Jerusalem

When Benjamin Netanyahu, Israeli prime minister, broke his silence this week on the botched assassination attempt on a Hamas leader in Jordan, Ariel Sharon, the infrastructure minister, was by his side.

When no minister was allowed to talk to the media until a deal had been struck with King Hussein of Jordan, Mr Sharon stood before the cameras.

And when the king negotiated the release of Sheikh Ahmed Yassin, the spiritual leader of Hamas, the Islamic Resistance Movement, in exchange for the two Mossad secret service agents, Mr Sharon played a pivotal role. Mr Sharon, said Mr Netanyahu, stood by him and supported him throughout one of Israel's most serious intelligence blunders in many years.

Mr Sharon's leap into the limelight signals the growing influence of a politician who Mr Netanyahu feared would sow divisions in the governing Likud party and threaten his authority. But Mr Netanyahu is now increasingly dependent on the former defence minister.

"Sharon jumped at the opportunity to do something. He is a man who acts," said Avraham Diskin, political analyst at the Hebrew University. "Unlike others who did not know what to do or were not capable enough, Sharon knew something had to be done quickly to limit the damage."

Mr Sharon, still loathed by the left, who regard him as indirectly responsible for the Sabra and Shatila massacres in Lebanon in 1982, has helped Mr Netanyahu out of trouble in the past. Even before that, he established himself as a tough military officer determined to stamp out any violence or opposition from Palestinians and Arabs. In 1953, he organised a retaliatory raid against the Jordanian village Qibya, in which 69 civilians were killed after Israeli commanders blew up their homes. In the early 1970s, he adopted an uncompromising policy against any Palestinian unrest in the occupied Gaza Strip.

When Jordan accused Israel of failing to deliver water last May, as agreed in the Oslo peace accords, Mr Sharon held talks with King Hussein, quickly resolving the dispute. This was the beginning of a close relationship with the king. Mr Sharon's adviser on Arab affairs, Magali Wahabe, a Druze, is a frequent guest in the palace.

"Whether you like him or not, he gets things done. The king knows where he stands with Sharon, unlike Netanyahu," a diplomat said. "When Sharon says he will do something, he will deliver, unlike Netanyahu."

Mr Sharon's single-mindedness is matched by his military and security record, which Mr Netanyahu lacks.

Man of action: Sharon (left) at Netanyahu's side during a press conference to explain the bungled assassination attempt · AP

"Netanyahu knows this. He wanted Sharon by his side. It would go down well with Likud and the public, who, regardless of his past, respects Sharon," the diplomat added.

Some Likud supporters are still concerned Mr Sharon will extract a price for his loyalty, particularly after being passed over for the coveted finance ministry job earlier this year.

"Sharon probably feels his chances of becoming prime minister are now non-existent but he will not ditch Likud. He is trying to get himself into the best possible position under the circumstances – as close as possible to Netanyahu," said Mr Diskin.

If so, since both believe Israel's security and the fight against terrorism is paramount, Mr Netanyahu will hardly feel threatened – except that Mr Sharon, more than the prime minister, is seen more as one who now believes in talking to his opponents, be they Palestinians or Israel's Arab neighbours.

NEWS DIGEST

Moi accused of breaking reform pact

A Kenyan opposition leader yesterday accused the government of going back on its word over agreed constitutional reform, and urged it to legalise two parties whose applications have been refused.

Mwai Kibaki, chairman of the Democratic party, said the government's decision not to register the Safina party co-founded by Richard Leakey, wildlife campaigner and scientist, was wrong.

"It is very bad faith for a government to promise something and then go back on its word," said Mr Kibaki, a former vice-president and finance minister who finished third to President Daniel arap Moi in the 1992 presidential election.

On Monday the registrar of societies approved 10 political parties, but rejected applications by Mr Leakey's Safina and the Islamic Party of Kenya.

In an agreement thrashed out last month with opposition leaders after weeks of political and civil unrest, the government promised, among other things, to process registration applications swiftly and give good reasons for refusal.

Mr Kibaki's stance is important for Mr Moi. He was the most prominent opposition politician to endorse the reforms. *Reuter, Nairobi*

■ MIDEAST CONFERENCE

Qatar defies protests

Qatar said yesterday it was sending out invitations to a Middle East and North Africa economic conference next month that has drawn protests from Arab states.

The invitations have been addressed to foreign ministers of Middle East and North African countries – including Israel – as well as their main economic partners in Europe, the US and Asia.

Almost 80 countries have been invited, and South American states had also expressed an interest in attending.

Qatar expects 2,500 foreign participants, among them 800 government delegates, 800 businessmen, 300 representatives of international or regional organisations, and 500 journalists.

Two of Qatar's fellow Gulf Arab states, Saudi Arabia and the United Arab Emirates, have said they will not attend the conference because of the deadlock in the Arab-Israeli peace process.

No Arab country has yet officially announced that it will take part in the conference, which US secretary of state Madeleine Albright is to attend. *AFP, Doha*

Algiers and Riyadh hold top level meeting

Algerian president Liamine Zeroual yesterday began a three day visit to Saudi Arabia – the first summit meeting between the two Arab countries in nine years, AFP reports from Algiers.

Mr Zeroual's visit comes after reports of secret Saudi mediation in the bloody civil war wracking his country, which the Algerian government has denied.

The Algerian president took his ministers of foreign affairs, energy, religious affairs and commerce with him on the trip which comes at the invitation of King Fahd ibn Abdel Aziz.

His meeting with King Fahd will be the first at this level since the Saudi monarch met then President Chadli Bendjedid in Algiers during an Arab summit in 1988.

Ahmed Attaf, the foreign minister, said the visit was part of "the strengthening of Algeria's rola on the Arab stage at a time of renewed deadlock in the Middle East peace process".

He said Mr Zeroual would discuss with Saudi rulers the need for Arab solidarity and the possibility of holding regular Arab summits.

The two countries fell out during the 1991 Gulf war when Algeria did not take part in a multinational coalition to drive Iraqi troops out of Kuwait. At the time, thousands of Algerians took part in fundamentalist-led demonstrations to condemn the anti-Iraqi front.

But ties have warmed since 1992 when the Algerian government outlawed the Islamic Salvation Front (FIS) and cancelled elections that the fundamentalist group was set to win.

Arab diplomats said last week that Saudi Arabia was leading secret mediation efforts between Mr Zeroual's government and the FIS to end the bloody insurgency which erupted after the cancellation of the polls and has claimed an estimated 60,000 lives.

One diplomat said Saudi efforts had led to the September 21 announcement by the Islamic Salvation Army, the armed wing of the FIS, of a ceasefire from October 1.

But an Algerian foreign ministry spokesman said the claims "lack any foundation," adding that Algeria "rejects categorically any interference in its domestic affairs".

Saudi Arabia, the world's top oil producer, helps finance the construction of dams and housing in Algeria.

Borrower Mugabe wrong-foots World Bank again

Scarcely a month after being back in favour, Zimbabwe goes on budget-busting spree, writes **Tony Hawkins**

The World Bank's decision to delay disbursement of a US\$62m loan to Zimbabwe is a serious setback for a country which has recorded a current account deficit of US\$460m for the first seven months of the year.

There was some surprise when in August World Bank officials announced the resumption of support after a partial suspension in 1995. The bank cited an improvement in the country's fiscal situation – which few private sector economists have been able to discern – in spite of 1997/98 projections of a worsening budget deficit from 7.1 per cent of gross domestic product in the year just ended to 8.9 per cent in the current year.

Not for the first time in its relationship with Zimbabwe since the launch of the 1991 economic structural adjustment programme, the World Bank was wrong-footed. Within a fortnight of the bank announcing resumed lending, President Robert Mugabe announced a budget-busting compensation package for war veterans who brought down Mr Ian Smith's Rhodesian government in 1979.

At this stage, no one knows what the war veterans package will cost. What is known is that when Herbert Murerwa, finance minister, protested that the country could not afford the package, Mr Mugabe said the government would borrow if need be, further embarrassing the Bank by remarking: "Have you ever heard of a country that collapsed because of borrowing?"

While Mr Murerwa was away at the annual meeting of the International Monetary Fund and the World Bank in Hong Kong recently, Emmerson Mnangagwa, his stand-in, was asked in parliament how the package would be funded. "What are bonds for?" he said.

Assuming 75,000 recipients – estimates range from 50,000 to 100,000 – the Z\$50,000 (US\$4,065) one-off gratuity would cost Z\$3.75bn while the annual pension of Z\$2,000 monthly will come to another \$1.8bn annually or Z\$2.7bn for the 18-month fiscal period until the end of 1998.

Add to these direct costs, and other even more unquantifiable expensea – land allocation, free health and education for ex-combatants and dependants – the cost for the 18-month budgetary period could range between Z\$4.5bn for 50,000 claimants and Z\$6.5bn for 75,000 beneficiaries. On the revised GDP numbers, this would be about 3 per cent of GDP, pushing the budget deficit to 11.9 per cent.

Matters could turn out to be a good deal worse should the El Niño factor bring drought to Zimbabwe this season, as is widely predicted by meteorologists. That would mean substantially slower growth of GDP, which has already fallen to 4 per cent in 1997 from last year's 7.3 per cent – a rebound from the 1995 drought.

Furthermore, as other government policies are unveiled, so things get worse. Kumbirai Kangai, agriculture minister, has set aside Z\$1.5bn for a strategic grain reserve in case of serious drought. This is not accounted for in the budget.

Nor is the Z\$146m for the state's purchase of a 20 per cent stake in Anglo American Corporation's Bindura Nickel Corporation (for subsequent sale to black investors). Nor is there is any provision for wage awards such as those pending at state-owned universities.

Last month too, Mr Mugabe promised that more than 4m hectares of white-owned farmland would be designated and redistributed to black farmers, with ex-combatants being given preferential treatment. The 1997 deadline is unlikely to be met but, with the government having identified 1,772 farms for resettlement, the president is under mounting pressure to deliver.

However, the budget contains Z\$183m for land acquisition and infrastructure development between now and 2000, which will make only a tiny contribution to so grandiose a programme.

Factor just some of these aspects into the budget numbers and the World Bank's assessment of an "improved" fiscal situation begins to look unrealistic. Neither can it be squared with the authoritative assessment of Leonard Tsumba, governor of the central bank, that "the bulk of the financing requirement of the budget deficit must be sourced from foreign and non-bank sources".

Given all this, plus the US\$500m swing from surplus to deficit in the balance of payments so far this year, Zimbabwe desperately needs a deal with the IMF and World Bank. Any budget compromise that would allow the two institutions to resume lending would surely involve a significant increase in taxes – with excise duties on fuel, drink and tobacco being the obvious candidates.

There is not much scope for spending cuts. Just two recent instances highlight the accelerating deterioration of Zimbabwe's institutional capacity. Timothy Stamps, the health minister, told parliament recently that 16 district hospitals were now standing empty for lack of staff. Blaming the World Bank and IMF, he told MPs: "We are not asked what we need. We are aimply told what we are going to have."

Murerwa: Zimbabwe cannot afford veterans package

Education ministry officials complain that salaries take up 90 per cent of their ministry's vote, with devastating consequences for the long-term future of the education system. For many observers, there is irony in the fact that the imperative of reversing such deterioration in Africa's institutional capacity was a central theme in this year's World Bank World Development Report.

NEWS: THE AMERICAS

Europe 'must pay its way' on Nato

By Bruce Clark in Washington

Senator Jesse Helms, republican chairman of the Senate foreign relations committee, yesterday warned that Nato expansion would fail if west Europeans did not pay their share.

But the ultra-conservative senator stressed that he strongly supported the principle of enlargement, as long as the project did not dilute the alliance.

The strong, though conditional, message of support from Mr Helms boded well for a Senate vote in favour of President Bill Clinton's enlargement plan if the cost issue is solved.

"The US did not create the Nato alliance and send our troops to fight and die in Europe... simply to defend European real estate or European economic interests," said Mr Helms, who also urged Nato to retain its focus on "the defence of democracy and preservation of liberty".

He added that ratification of Nato expansion by the necessary two-thirds of the Senate "may very well succeed or fail" in relation to west Europe's willingness to pay its share of the cost.

Bnt Mrs Madeleine Albright, secretary of state, told the committee she would insist existing Nato partners paid their share.

The administration has estimated its share at \$150m-\$200m a year over the next decade – and tense negotiations are going on within tha alliance about bow to finance the rest. Several west European states have argued that expansion can be funded by switching money away from existing projects, a view Washington firmly rejects.

Mrs Albright, who was invited by Mr Helms to testify before his panel, urged the Senate to endorse the admission of Poland, Hungary and the Czech Republic into the Atlantic alliance – as agreed during last July's summit in Madrid – on the grounds that strategic US interests were at stake.

"A larger Nato will make America safer, Nato stronger and Europe more peaceful and united," she told the foreign relations committee at a hearing which launched the administration's bid to secure approval for enlargement.

Mrs Albright also assured Mr Helms that Nato would not abandon its principal mission of defending its members' territory, or allow Russia to interfere in its decision-making process.

She said the 48-year-old alliance was still necessary as a safeguard against conflict between aod within European states – and to ward off threats against its members' soil, which might include a challenge from a resurgent Russia.

Of such threats she said, "Some are visible on the horizon, snch as threat posed by rogue states with dangerous weapons." Others "may not seem apparent today but are not unthinkable".

"Within this category lie questions about the future of Russia. We want Russian democracy to snceed and we're optimistic that it will – but one should not dismiss the possibility that Russia could return to the patterns of its past."

Conservative Republicans have expressed the fear that to sweeten the pill of enlarging Nato, the US has made too many concessions to Russia, such as the creation of a Nato-Russia council to discuss European security.

As casual cargo thieves are beaten, armed criminals take their place

Highway robbery booming in Brazil

Two months after he was hired by Ponto Frio, a Brazilian chain of electrical goods stores, to investigate a spate of highway robberies, Henrique Reis Filho, a security expert, believed he had found evidence of inside involvement. He was never able to prove it: returning from inspecting a company depot, his car was intercepted and a gang of armed men shot him dead.

Brazilian organised crime, hitherto best known for its involvement with drugs, gambling and kidnapping, had issued another stark reminder that highway robbery is its growth activity of the 1990s.

Insurers estimate goods worth about R\$350m (US\$320m) will be stolen in transit this year in some 4,000 robberies, up from R\$250m in 3,200 robberies last year. Their estimate, however, is of insured goods for which claims are made: manufacturers say the true cost runs into billions.

The robbers have plenty of opportunity. About 62 per cent of Brazil's freight is carried by truck, often over immense distances. Most is transported by independent contractors: there are about 12,000 hauliers, 95 per cent of them small and medium-sized outfits.

Cargo theft used to be a predominantly non-violent crime. Often, a driver would simply disappear with his load, or be looking the other way – intentionally or not – while someone else stole it.

Solving this problem was relatively straightforward. Ten years ago, Pamcary, a company of security consultants and insurance brokers specialising in road freight, which claims to handle 70 per cent of the merket, began compiling a computer register of truck drivers.

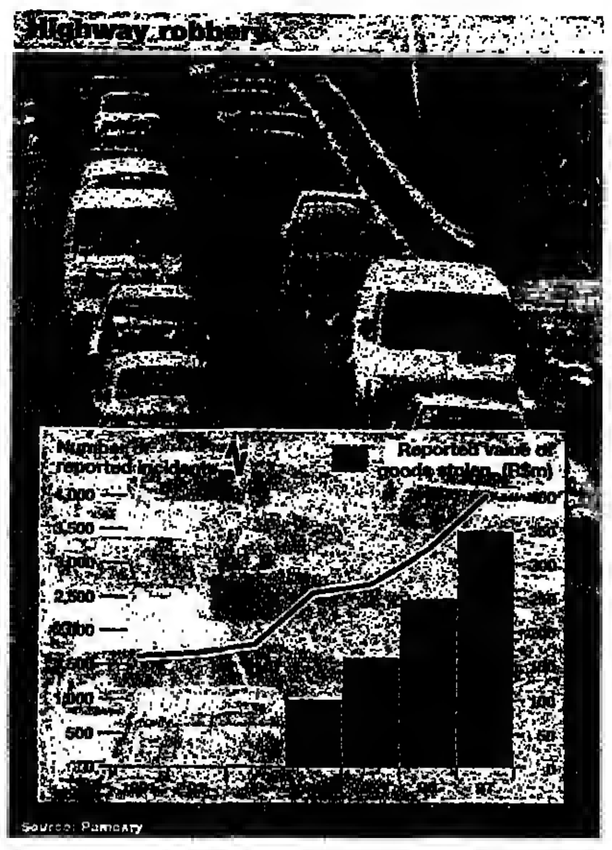
It now has data on 570,000 drivers and is consulted 4,000 times a day by hauliers, who are given cover for a journey only if their driver has been cleared first. The company also advises on driver training and route planning, making sure, for example, that drivers stop only in secure rest areas.

Artur Santos, a director at Pamcary, says the system has virtually eliminated casual theft and done much to reduce losses from accidents caused, for example, by drivers with a history of drinking.

However, the problem of theft has been supplanted by the much greater one of armed robbery.

To begin with, says Mr Santos, robbers "stole any old cargo and sold it where they could". Now, the criminals are much better organised.

Gangs identify trucks carrying high-value goods, such as pharmaceuticals and electrical goods, or those that are easiest to dispose of, such as textiles and foods.



Goods are often stolen to order, to supply wholesalers or retailers happy to pay low prices without asking questions: "The volume of goods stolen is far too big to be sold only on the black market," Mr Santos says.

The so-called military police, who respond to crimes in progress, are overstretched. The civil police, which are supposed to investigate crime, are often suspected of complicity or even direct involvement.

Convictions for receiving stolen goods are almost unheard of, partly because prosecutors must prove that the buyer acted knowingly.

By 1995, the problem was so serious that insurers were paying more in claims than they were getting in premiums. Of 130 insurers in the market, says Mr Santos, only six now take cargo risk, with severe restrictions on settlements.

Pamcary markets a computerised satellite tracking system, called Autotrac, which spots any deviation from a truck's itinerary and allows drivers to activate a panic button.

When a problem is identified, the firm dispatches one of 150 patrol cars to determine whether a robbery is in progress.

Mr Santos says the system has prevented robberies of goods worth R\$20m in the past two years, and helped insurers to reduce claim settlements to 70 per cent of premiums.

But one result has been that 90 per cent of robberies now take place in Greater São Paulo and Rio de Janeiro, where thieves can dispose of stolen trucks more quickly.

Another result is an increase in more audacious crimes: in a recent typical example, 20 armed men held 50 peopla hostage in a warehouse for four hours while loading and stealing seven truckloads of coffee.

Celso Vieira, a director of the Brazilian Association of Risk Management and of the local subsidiary of a multinational manufacturing group, says greater "traceability" of goods offers a possible solution, although he admits its application is limited to higher-value products.

The real prohiem, he argues, is a culture of "accommodation" with robbery. He claims state governments, to whom the police report, are virtual accomplices of the robbers because they levy value-added taxes on all goods, even if they are stolen. By the same token, insurance valnes include the shipper's mark-up.

"Insurance and security cost about 7 per cent of the value of freight, when it should be 2 per cent," be says. "There's a serious ethical problem, the cost is accepted as just another expense of doing business in Brazil."

Shippers, hauliers and insurers, be adds, should join to lobby for changes to the penal code and the tax system. But so far, he laments, while his association has given voice to the issue, "nobody has shown the least interest in listening".

Jonathan Wheatley

NEWS DIGEST

Menem wants Falklands help

Argentine President Carlos Menem will renew his request for US intervention in the long-standing Falkland Islands dispute when US President Bill Clinton visits Argentina on October 15-19 – the longest stop in a three-country regional tour that also includes Brazil and Venezuela.

While the US has refused recent Argentine requests to mediate in the conflict, Mr Menem will ask his US counterpart to help bring the British to the negotiating table, he told a press conference on Monday.

"We're not going to ask them [the British] to give the Malvinas back, but we are asking that they simply fulfil United Nations resolutions to open a dialogue," he said.

Other issues for Mr Clinton's visit – it will be his first to Argentina – include drug trafficking, terrorism and trade. With an eye to a regional free-trade summit in Santiago, Chile, in April next year, the two countries' presidents will work on a strategy for hemispheric integration. *Andrea Mandel-Campbell, Buenos Aires*

■ HOUSE COMMITTEE DEAL

Compromise on fast-track

The Clinton administration yesterday reached an agreement with members of the House ways and means committee which improved the outlook for the president's hid for new trade negotiating authority.

Robert Matsui, a senior Democrat congressman on the House trade subcommittee, agreed to a compromise which would strengthen trade and environmental components in the legislation, as demanded hy Democrats. The legislation is scheduled for a committee vote today.

The changes still give the majority of House Democrats far less than most of them have demanded to secure their vote for fast-track, under which Congress agrees to vote for or against trade pacts without amendment. The Republican leadership has vowed not to bring to the floor legislation that does not have significant bipartisan support in the committee. *Nancy Dunne, Washington*

■ VENEZUELAN DIVERSIFICATION

Foreign trade bank set up

Venezuela yesterday launched a Foreign Trade Bank to finance non-petroleum exports and help diversify the country's oil-driven economy. It will replace the export credit fund Finexpo. The new bank has a capital of \$200m, but additional financing may come from institutions such as the Andean Development Corporation. The bank is part of efforts to promote non-traditional exports, said Freddy Rojas Parra, the minister of industry and commerce. *Raymond Colitt, Caracas*

■ QUEBEC POLL

Independence support falling

Support for Quebec independence among voters in the French-speaking Canadian province is at a three-year low, according to an opinion poll published yesterday.

The Compas survey, published in Toronto's Financial Post newspaper, found support for Quebec's separation from Canada falling to 41 per cent from 48.5 per cent at the start of the year.

The poll followed other recent surveys showing a steady decline in support for Quebec's secession from the rest of Canada. It found that 23 per cent would definitely vote yes to independence and 18 per cent probably yes, while 46 per cent would definitely vote no and 13 per cent probably no. *Reuters, Montreal*

New Yorkers start to come to terms with smart cards

By John Authers and William Lewis in New York

New Yorkers are steadily coming to terms with smart card technology following Monday'a launch of the biggest pilot scheme yet seen in the US.

For six months, the Upper West Side area of Manhattan will be a laboratory for payment cards using an embedded microprocessor.

For the time being, however, it is difficult to buy anything with them, as many of the 600 merchants involved in the scheme have not received the terminals needed to read information on the cards.

The pilot has six months to run, and the number of shops equipped with the necessary terminals should have doubled hy tha end of this week.

But the response of the manager of one large delicatessen and pharmacy on Amsterdam Avenue, in the heart of the test area, who did *not* have a terminal, sums up the problem neatly.

"Oh, we're so far behind here. In Europe, everyone uses these things, but not here."

Pilot schemes are not unique. Visa plans about 70 pilots around the world. It is aiming the technology most directly at developing nations, where telecoms are expensive. This gives chip cards a significant advantage over magnetic stripe cards, which require a telephone call before they can be authorised.

But the New York scheme is the most ambitious yet in the US, where chip cards have to date been far less widely used than in western Europe.

This is mainly because the US already had an infrastructure for magnetic stripe cards before the chip technology was generally available.

In France, for example, all credit and debit cards have carried microprocessors for several years.

New York's is also the biggest pilot of "stored value", where chips are loaded with value, so cards can be used like cash. In France, chips are used to perform credit and debit card functions.

The previous significant pilot of stored value in the US was in Atlanta during last year's Olympics.

This showed the cards and systems could work, but some in the industry were disappointed by the level of use for the cards. Tha New York scheme is designed to ensure that cards are widely available, and widaly accepted in their target area.

According to Michael Smith, general manager at Schlumberger Danyl, which is producing the cards: "Atlanta was a great success because we proved that everything worked and we proved that consumers liked the concept."

But he added: "One thing we learnt is that for the programme to be interesting to card-holders you need to have a lot of terminals available for them to use. Another key lesson is thet merchants want to see a lot of people using cards and wanting to pay with them. The New York pilot is designed to respond to both those lessons."

The Upper West Side fits these needs by being a well defined area, with Broadway a natural shopping centre running diagonally across it.

It is densely populated with young adults, and the two issuing banks have issued enough cards for every resident.

Once terminals have been installed – and they are expected in half of all the retailers in the area – the theory is that the conditions will be ideal to test whether Americans will use smart cards.

Treasury to take money from contingency reserves to fund social security spending increase

Extra $810m benefit bill as inflation rises

By Wolfgang Münchau and Nicholas Timmins

The government was yesterday faced with an unexpected £500m ($810m) bill for social security benefits next year after inflation edged up marginally last month.

Headline inflation went up from 3.5 per cent in August to 3.6 per cent in September, the highest rate for two years, reflecting continued inflationary pressures in the UK economy. The rate is more than a percentage point higher than the 2.5 per cent used last year to forecast social security spending from next April.

The increase means benefit expenditure next year will be about £500m higher than forecast, according to the Treasury. The department said the money would be taken out of next year's £2.8bn contingency reserve.

The extra bill will increase pressure on spending.

The government has given an absolute commitment to stick to the spending plans of the former Conservative administration both this year and next.

The increase in headline inflation was due almost entirely to a rise in mortgage rates by several building societies. The underlying rate of inflation – which excludes mortgages – fell from 2.8 per cent in August to 2.7 per cent in September.

Alistair Darling, chief secretary to the Treasury, said the economy was "on course to get back on track", as underlying inflation appeared to be heading towards 2.5 per cent, the government's target.

The gap between the two inflation measures is likely to widen in the next few months, adding to the policy dilemma for the Bank of England, the UK central bank.

The Bank's monetary policy committee is widely expected to leave short-term interest rates unchanged at 7 per cent at its regular monthly meeting scheduled for today and tomorrow.

The consensus in financial markets is for interest rates to raise again before the end of the year. Some economists expressed concern about the effect of the rising headline rate because of its use as a benchmark index for rents and benefits – and because it sets the tone for wage bargainers.

The inflation increase will give a couple on the basic state pension more than £100 a week for the first time. It will also push the total social security bill through the £100bn barrier.

Richard Iley, UK economist at ABN-Amro Hoare Govett, the securities house, said "while the Bank of England prefers to focus on the underlying measures of inflation, the steady rise in headline RPI [retail price index] that this year's policy tightening has produced may have serious inflationary consequences".

Housing costs increased by 1 per cent during September, resulting in an annual increase of 9 per cent.

The main downward pressure on the RPI came from fuel and light after the cut in value added tax on domestic fuel from 8 per cent to 5 per cent in the July Budget.

Cash pledged for school internet links

Microsoft chief Bill Gates to advise on $162m project

By Simon Targett and Christopher Price

Tony Blair (left) chats with Bill Gates at Downing Street yesterday. Microsoft has agreed to work with BT on the project

The government yesterday pledged £100m ($162m) for new computers in the UK's 32,000 schools and unveiled plans to link every school to an internet-based "national grid for learning" within five years.

The move coincided with an announcement from Oftel, the telecommunications industry regulator, that schools would be offered free high-speed connection to the grid and low call charges.

Bill Gates, the billionaire founder of Microsoft, the US computer company, has been recruited as an adviser to the project.

Dennis Stevenson, chairman of the Pearson group, owner of the Financial Times, who prepared an influential report on the potential of IT in education, welcomed the fact that the government was offering "a co-ordinated programme".

The plans, set out in a consultation document *Connecting the Learning Society*, follow an announcement in July that National Lottery cash would be targeted towards training all 500,000 teachers in IT skills by 2002.

Tony Blair, the prime minister, said the grid, to be launched next year, would play a "crucial role" in the drive to raise standards of literacy and numeracy.

He said: "Teachers will be able to get advice on effective ways of teaching children how to read and pupils will be able to revise for their GCSEs [exams taken around age 16] or explore the museums of the world for their project work." He said the grid would help school-leavers to become "IT-literate".

Only 6,000 schools are currently connected to the internet and more than one-third of teachers feel uncomfortable using computers. Nearly half of the computers in schools are more than five years old.

By 2002, about 75 per cent of teachers and 50 per cent of pupils will be able to use their own e-mail address and the government will be looking to introduce measures for assessing the level of school-leavers' competence in ICT – information communications technology.

Mr Gates will contribute to the development of this teaching resource and Microsoft has agreed to work with British Telecommunications and RM, the leading supplier of IT to British schools, to design a centre in consultation with government.

Mr Gates, in Britain to help the launch of the grid, said: "I'm very excited to have Microsoft involved in helping shape some of the strategic thinking behind making technology an integral part of every aspect of British life."

Ministers hope the grid could become a showcase for Britain's educational software industry.

Teachers' unions, while welcoming the move, warned that schools would need to be protected against some companies.

Airport delays to become worse

By Michael Skapinker, Aerospace Correspondent

Passengers travelling on scheduled flights to or from the UK had a 26 per cent chance of suffering delays in the second quarter of this year and the situation will get worse, the Civil Aviation Authority said yesterday.

The number of scheduled aircraft which arrived or departed within 15 minutes of their advertised time fell to 74 per cent in the second quarter of this year, compared with 80 per cent in the same period in 1996.

The CAA said only a small proportion of delays resulted from air traffic control difficulties. The main reason was the 6 per cent rise in aircraft traffic in the second quarter compared with last year.

Stan Abrahams, the authority's chief statistician, said: "The delays will increase. The more congestion there is, the less room there is for manoeuvre." Other causes were missing passengers and luggage, technical problems on the aircraft and adverse weather.

The authority said the situation on charter aircraft was worse, with 51 per cent of flights delayed.

The proportion of scheduled flights on time at London's Heathrow airport fell to 71 per cent in the second quarter, compared with 78 per cent last year. Average delay was 13 minutes, compared with nine in the second quarter of 1996. Given this was the average on all flights, the actual delay on affected flights was considerably higher.

On flights between Heathrow and New York's JFK, the carrier with the worst record in the month of June was Kuwait Airways, with average delays of 41 minutes. Air India suffered an average 38 minutes on the route, followed by Virgin Atlantic with 29 minutes.

United Airlines had average delays of 13 minutes on Heathrow-JFK flights, American Airlines 12 and British Airways 11 minutes.

The punctuality record at London's Gatwick airport deteriorated in the second quarter, with the number of scheduled flights leaving or arriving within 15 minutes of advertised times falling to 70 per cent from 74 per cent last year. The average delay was 15 minutes, compared with 12 in the second quarter of 1996.

The proportion of charter flights on time at Gatwick airport fell to 42 per cent in the second quarter from 46 per cent last year. The average delay on Gatwick charters rose to 45 minutes from 39 minutes last year.

Imports of cars close to record

By Haig Simonian, Motor Industry Correspondent

High September car sales pulled in near record imports, with vehicles built overseas accounting for more than 67 per cent of registrations. They took 64.7 per cent in the same month last year.

New car sales overall increased by more than 16 per cent as August's buying euphoria spilled into September.

The total of 160,739 registrations – compared with 138,059 the previous year – suggests 1997 could go down as a record for the motor industry. In the first nine months of this year, registrations increased by more than 7 per cent to 1.78m compared with the same period last year.

"This shows that retail sales are still strong following an excellent August. One of the contributory factors to these figures must be the fact that a lot of customers were unable to take delivery of their cars in August as they had hoped," said Alan Pulham, franchised dealers' director of the Retail Motor Industry Federation.

The September figures revealed particularly strong gains for some manufacturers. Ford, the market leader, which performed disappointingly in August, made a strong recovery. Sales also increased sharply at Vauxhall, Peugeot and Renault, and Jaguar and Daewoo recorded a busy month.

September sales up 16%

Registrations of new cars in UK	Sep 1997 Volume	Sep 1997 Change %	Sep 1997 Share %	Sep 96 Share %
Total Market	160,739	16.4	100.0	100.0
UK Produced	52,566	7.9	32.7	35.3
Imports	108,173	21.1	67.3	64.7
Japanese makes	23,890	18.3	14.9	14.6
Ford group	33,360	32.1	20.8	18.4
Ford	32,557	31.8	20.3	17.9
Jaguar	803	42.1	0.5	0.4
General Motors (1)	22,428	14.3	14.0	14.2
Vauxhall	21,382	14.4	13.3	13.5
Saab	1,046	12.4	0.7	0.7
BMW group	18,279	10.2	11.4	12.0
BMW	3,582	2.2	2.2	2.5
Rover(2)	14,697	12.4	9.1	9.5
Peugeot group	14,695	18.9	9.1	9.0
Peugeot	11,905	52.0	7.4	5.7
Citroen	2,790	-38.5	1.7	3.3
Volkswagen group	13,364	6.3	8.3	8.7
Volkswagen	8,343	-6.4	5.2	6.6
Audi	2,611	17.1	1.6	1.6
SEAT	1,220	31.2	0.8	0.7
Skoda(3)	1,190	12.3	0.7	0.8
Renault	11,004	20.0	6.8	6.6
Nissan	7,330	-3.0	4.6	5.5
Toyota	5,301	9.8	3.3	3.5
Fiat group	6,245	-5.1	3.9	4.2
Fiat	5,717	-4.7	3.6	4.2
Alfa Romeo	528	-9.0	0.3	0.4
Volvo	3,709	-6.0	2.3	2.9
Mercedes Benz	3,893	17.7	2.4	2.4
Honda	3,868	47.1	2.4	1.9
Mazda	1,942	-3.6	1.2	1.5
Korean makes	6,139	36.7	3.8	3.3

1. GM holds 50% of Saab Automobile and has management control. 2. Includes Range Rover/ Discovery 3. VW holds 70 % of Skoda and has management control

Source: Society of Motor Manufacturers and Traders

Conservative leader's speech overshadowed

By Robert Peston and John Kampfner

William Hague's call yesterday to the opposition Conservative party to get off its knees and walk tall again was overshadowed last night when Lord Tebbit, former party chairman, made a controversial attack on "multi-culturalism" and said ethnic minorities should give their exclusive allegiance to the British flag.

Lord Tebbit received a standing ovation at a packed fringe meeting last night on the first day of the conference when he said: "Youngsters of all races born here should be taught that British history is their history, or they will forever be foreigners holding British passports and this kingdom will become a Yugoslavia."

His remarks were in contrast to the first speech by Mr Hague to a Conservative conference since becoming leader in June. "I want to see in our party more black people, more Asians," Mr Hague said, lauding "patriotism without bigotry".

But Lord Tebbit was scathing in his rejection of Mr Hague's aim of building an inclusive party. "Why do I share a party with those that advocate sodomite marriage or membership of a federal state Europe or the rejection of the hereditary principle?" Lord Tebbit asked rhetorically.

There were signs that Mr Hague was unwilling to be seen to be personally chastising Lord Tebbit, since he withdrew at the last moment from a BBC television interview after the Tebbit furore blew up.

An aide to the party leader, explaining why Lord Tebbit would not be disciplined, said "this is not about financial or personal misconduct, but a difference in policy".

But Lord Parkinson, the current Conservative chairman, said that "we do live in a multi-cultural society and our aim is to make it work better not to deplore it, so I can't agree at all with Norman [Tebbit]".

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UK NEWS DIGEST

N Ireland talks begin

Negotiations on the future of Northern Ireland began in earnest yesterday as pro-British unionists entered full-scale talks with Sinn Féin, the political wing of the Irish Republican Army, for the first time since the partition of Ireland in 1921. The UK and Irish governments and all eight Irish political parties presented their opening positions on three strands – the internal political arrangements for Northern Ireland, the role of Dublin in the province's affairs and relations between London and Dublin. The main bone of contention is expected to be strand two, with the Ulster Unionists, the biggest unionist party, voicing opposition to proposed north/south bodies to reflect the Irish identity of the Roman Catholic nationalist community.

John O'Donoghue, the Irish justice minister, said he detected "a shared determination to consolidate the peace". Mo Mowlam, the Northern Ireland secretary, acknowledged the "size of the challenge ahead". She said there remained "substantial disagreements" but described the atmosphere as "constructive". *John Murray Brown*

■ LONDON

Company seeks to sell ground water

An entrepreneur is to challenge demands for multi-million pound government subsidies to save London from rising ground water, with a proposal to sell the water to business.

Jeremy Bryan, a former executive at Thames Water, will next week register a private company to recover ground water that threatens to leak into the capital's underground railway system and undermine the foundations of buildings.

Mr Bryan, who has struggled to inject competition into the water industry, dismissed a recent plea by London companies and officials for government cash to tackle the problem. "I do not see a role for the government. I think the existing institutions should manage this themselves. There is too much of a temptation to run to government when problems emerge," he said. *Leyla Boulton*

■ INDEPENDENT TELEVISION

Radical streamlining planned

Independent television companies yesterday drew up plans for a radical streamlining of decision-making on programming in an effort to combat a gradual fall in the share of the UK television audience held by ITV, the consortium of independent TV companies. Directors of the companies gave initial approval to a plan to replace the network's 15-member broadcast board – which meets monthly to plan schedules – with a smaller programming policy group. The establishment of a policy group is part of an effort by Richard Eyre, the new chief executive of ITV, to make it easier for the network to plan its schedule more flexibly. There has been concern that the broadcast board has been an unwieldy mechanism for planning the schedule, and this is one of the factors behind a decline in ITV's audience share from 40 per cent to 33 per cent during the 1990s. *John Gapper*

■ PENSIONS MIS-SELLING

Minister highlights 'misery' caused

The government yesterday threatened new measures against companies dragging their feet over pensions mis-selling as it sought to highlight the human misery being caused by the £5bn ($8.1bn) scandal. Helen Liddell, a Treasury minister, said she would "very shortly" announce further action, unless laggards made faster progress. She was flanked by two victims of mis-selling who only succeeded in getting compensation with the intervention of a trade union. Hundreds of thousands of people were wrongly advised to leave occupational schemes, or not join them, in the late 1980s and early 1990s. Instead they were persuaded to take out personal pension plans which did not have the employer contributions. Of the 41 firms monitored by the Treasury, only 5 had resolved more than 50 per cent of their priority cases by the end of September. *Christopher Brown-Humes*

■ BEEF EXPORTS

Proposal to lift ban submitted

The UK will today submit an amended proposal to the European Commission for a scheme which would lift the export ban on beef from Northern Ireland, government officials said last night. Franz Fischler, European Union farm commissioner, said at the end of a visit to the UK that agreement on the certified herd scheme would be "the first real step" in lifting the 18-month old ban. The scheme has to win a qualified majority in the standing veterinary committee, representing member states, which meets next month. If it agrees, the ban can be lifted for Northern Ireland. If not, the proposal will go to the Council of Ministers for a decision.

Walter Elliott, president of the Ulster Farmers' Union, which represents farmers in Northern Ireland, said: "I can see no reason why it can't go through the political process before the end of the year." *Alison Maitland*

■ INTERNET

Export success for black pudding

Black pudding, a sausage-shaped food made of animal blood and suet, is tasting international export success because of an advertisement on the internet. Jack Scaife, a family butcher, of Keighley in northern England, has won orders for the pudding – often eaten at breakfast – from Venezuela, Japan, South Africa, Singapore and Hong Kong. Turnover at the company has soared by 20 per cent in the past eight months.

Mitsubishi Electric are announcing an initiative tomorrow to help other small businesses start on the internet.

All change for rail freight deal

Sale of part of the former state network may affect Eurotunnel's charges, writes **Charles Batchelor**

The revised deal for the sale of the former state rail network's Channel tunnel freight business highlights the problems facing privatised freight companies in developing new markets.

The new terms, intended to persuade the European competition authorities to approve the privatisation of Railfreight Distribution, include a promise from the UK government to negotiate lower rail freight charges from Eurotunnel, the Anglo-French group. Eurotunnel operates the tunnel, and runs car and truck shuttle trains through it underneath the English Channel between Folkestone in England and Calais in France.

In return, English Welsh & Scottish Railway – the company owned by Wisconsin Central Transportation of the US which provisionally acquired Railfreight Distribution last March – has agreed to make its trains available to rival operators. If Brussels agrees to the revised terms, EWS would also repay some of the subsidy it is due to receive from the UK government.

EWS saw the need to revise the deal, prompted by objections from several European rail companies, as an opportunity to bring pressure to bear on Eurotunnel's high rail charges. These are regarded as the biggest barrier to developing Channel tunnel rail freight.

When the tunnel opened in May 1994, one of its main benefits was the creation of new long-distance freight services between the UK and mainland Europe. Previously, Britain's network had relatively few journeys long enough to make rail freight a viable option.

But while the tunnel has created completely new markets for passenger travel, rail freight volumes are only slightly higher than the 2m tonnes previously carried by the Channel ferries and are well below early forecasts of 6.5m tonnes a year.

Fierce competition between the Channel tunnel and the ferries for road-borne freight has meant it is much cheaper to move goods by road to and from the tunnel instead of using long-distance rail freight. The Rail Freight Group, an industry body, estimates that it costs 2¼ times more to move a tonne of freight through the tunnel by rail than by truck on Eurotunnel's freight shuttle. Eurotunnel disputes these figures.

Part of the problem is the minimum usage agreement which guarantees Eurotunnel revenues of about £20m ($32.4m) a year up to 2006 regardless of how many freight trains use the tunnel. It was originally thought this cushion would be needed for only two or three years but it now appears likely that it could be needed for its entire term. As long as freight volumes remain below the minimum covered by this agreement, there is little incentive for Eurotunnel to reduce its rates.

The government believes that persuading Eurotunnel to cut its rates will help it achieve its aim of transferring freight from road to rail.

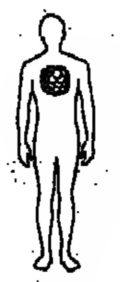
John Prescott, the UK deputy prime minister, is attempting to bring pressure on Eurotunnel through the revised EWS deal as well as through separate negotiations over an extension of the Eurotunnel concession, by 34 years to 99 years.

The scale of Railfreight Distribution's losses, still running at about £1m a week and subsidised by the taxpayer, means there is considerable pressure on the government to complete the sale to EWS.

For EWS, which operates most domestic freight services of the former British Rail, acquiring Railfreight Distribution is an important part of its strategy to boost profits. Its new owners have injected funds and a new vitality into the business, attempting to win single wagon and part-train shipments which BR found unprofitable.

They are carrying out trials of time-sensitive supermarket shipments, re-opening links to ports and going for short-term traffic flows neglected by BR. But the margins on this business are much thinner than those earned on the traditional bulk shipments in which BR specialised.

Tunnel freight volumes fall below expectations



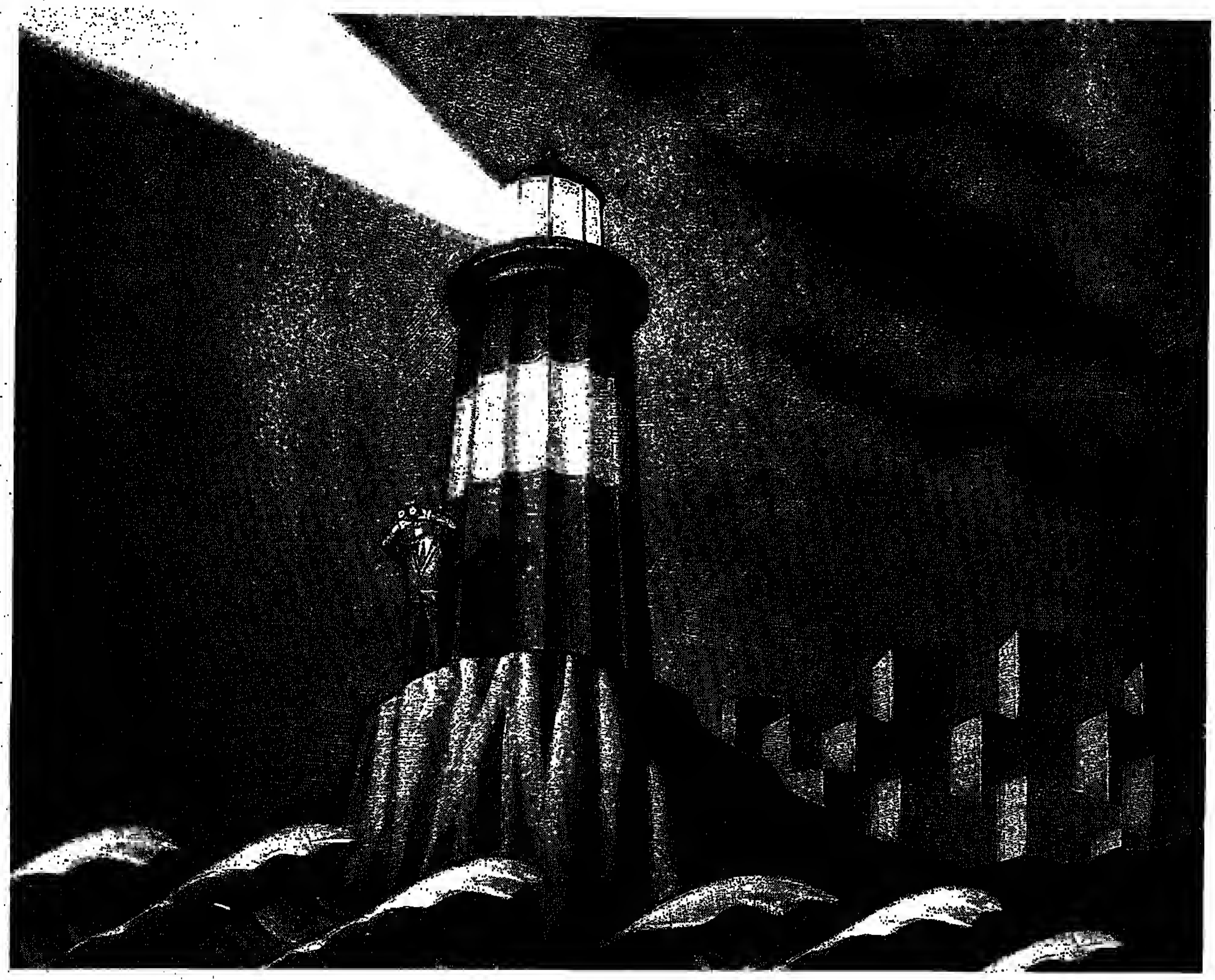
PhotoPoint has potential to selectively target a range of abnormal tissues in the body, such as diseases like cancer or retinal abnormalities.

In clinical studies, the PhotoPoint drug is injected and is subsequently retained by target cells. It remains inactive until exposed to a specific wavelength of non-thermal red light.

Light is directed at the target area. A small diode-based system generates the light, and special devices deliver it within the body or on its surface.

Targeted cells are destroyed by an interaction between the drug and the light, with minimal known side effects. PhotoPoint, now in clinical trials, is being developed as an outpatient procedure.

WE'RE CHARTING A BOLD NEW COURSE IN MEDICINE. WANT TO COME ALONG FOR THE RIDE?



Every once in a while, a sea change in medicine happens. It is the kind of shift that is so fundamental that years later, people will say, "Well, of course, anyone would have seen that was the direction things were going."

At the time, of course, it is anything but obvious. Yet there will always be some canny investors with an affinity for global thinking who will grasp the concept and the possibilities.

While you ponder this homily, allow us to cut to a commercial.

We modestly suggest that we're poised to become a leader in a whole new field of medicine. No business plan can guarantee success, of course, but our proprietary light-activated drugs and devices have the potential to treat a wide range of medical conditions, from cancers to eye diseases, in a minimally invasive procedure.

This technology, which is currently being tested in preclinical and clinical studies in the U.S. and internationally, is a more highly-evolved version of a procedure known in the medical circles as photodynamic therapy. But our approach is so advanced we're branding it under a different name. (More about that later.)

To begin with, our procedure uses proprietary synthetic drugs because they have the potential to be precise and controllable. Our patents cover broad classes of photoselective compounds.

We are synthesizing these drugs to react to a low-power red light that is ideally suited for penetrating body tissue. We are also developing light-producing devices designed to be compact and affordable, yet allow for precise control through sophisticated software.

Next, through years of research we've gained a unique expertise in dosimetry. This encompasses determining the amount of drug to administer, the time that is needed for the drug to achieve optimal concentration in diseased or target cells, and how to control the intensity and duration of light. This in turn may offer the physician considerable selectivity in the application of the procedure.

Finally, we have forged strategic alliances with some of the most respected names in the medical industry.

We plan to market this procedure under the brand name PhotoPoint™. By working aggressively with our corporate partners to create a sharply-focused brand identity among the medical and patient community, we intend to make PhotoPoint synonymous with the highest standard of control in photoselective procedures.

Would you like to be part of our voyage? We can't think of any that will be more exciting. Or more fulfilling.

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The company's products require regulatory approval before marketing.

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THE GLOBAL COMPANY

Management The myth of the global executive

Time's up for the man from head office

The key to success is to combine corporate culture with local knowledge and harness, not obliterate national characteristics, writes Tony Jackson

When it comes to the nuts and bolts of management, the idea of the global company can be misunderstood. For some, it calls up a picture of multicultural monsters, uprooting managers of all nations and sending them to wander the globe.

The reality is more complex. The vast majority of even the biggest companies still have a culture rooted in their country of origin.

Changing that is one of the biggest challenges to becoming genuinely global.

As for expatriate managers, the situation is the reverse. Most companies aim not to have more of them, but fewer.

In some respects, the expatriate is a hangover from the old days of the multinationals, when managers were sent out from head office, like colonial governors, to run the overseas possessions. The aim is now to employ local managers who have been imbued with the culture of the organisation.

The trick is to achieve a balance: to combine the strength of local knowledge with global reach.

Richard Greenhalgh, head of management development and training at the Anglo-Dutch consumer group Unilever, says that in a few areas, such as integrity and the Unilever code of conduct, corporate culture takes precedence.

"But you need a balance between having a very international cadre and having a national presence," he says. "A few years ago, we were concerned that we had too many expatriates. Five years ago, three of our four business heads in Italy were expatriates. Now they're all Italian. In a consumer business like ours, that's important."

Lowell Bryan, a senior partner with McKinsey in New York, agrees. "Though you may want to rotate people," he says, "you tend to find they're most effective back in their home country. Otherwise you get the 'cut flower' syndrome. People start off knowing a lot, but then they lose it. And they're competing with locals."

> Outside a handful of companies even the biggest corporations are dominated by the culture of the home country

The global executive, in fact, may be something of a myth. According to Mr Greenhalgh, the use of foreign talent runs counter to the need to provide a career ladder for local managers.

In addition, he says, the increase in dual career families makes it more difficult to move people around. "There is often a window of opportunity for people to go abroad, but in many cases it's for four years," he says. "Then the partner wants to resume a career, or the children have to be educated, so they return."

However global the company may be, it remains necessary to manage people differently in different countries. Within Europe, Mr Greenhalgh says, Unilever has traditionally been much more open with managers in northern than southern countries, on matters such as where they stand in the salary scale or what their prospects are.

That is changing, he adds. A younger generation of managers is more likely to have travelled when young, and many have taken an MBA in the US.

Nevertheless, local differences remain. Steve Redwood, a London-based management consultant with Price Waterhouse, tells of a client who had assembled a team from eight different countries to work on a project.

"The national stereotypes applied," he says. "The people from Switzerland and Germany were mainly interested in the way the project was organised. The people from Spain took a much more intuitive approach. The British displayed a high level of scepticism on whether the whole thing really mattered. Language was not the issue. It was more basic than that."

Behind this lies the most fundamental problem of all: the fact that outside a handful of companies – Mr Bryan of McKinsey puts it at between a dozen and 20 worldwide – even the biggest corporations are dominated by the culture of the home country.

"Outside that handful", Mr Bryan says, "companies are very German, or very British, or very American. One big difference with American companies is they assume globalisation means Americanising the world. Others don't have that arrogance."

If top management are all natives of the home country, that makes it much more difficult to attract and keep a global pool of talent. "People know when they fit in and when they don't." Mr Bryan says. "That's true even of national companies: there's a tendency for people to have gone to the same school, or all have trained as engineers. It's even more true when it comes to where you grew up."

The problem lies not in attracting people – a talented Indian or Korean manager will typically want early experience with a multinational – but in keeping them. "People will join the company to learn," Mr Bryan says, "but unless they feel they're part of the core company, they're going to leave, and exploit the brand status of the company in their next job."

Given the importance of local cultures within the global company, an obvious question is how to appraise and identify talent around the world on a consistent basis. Unilever, Mr Greenhalgh says, has been working on this for the past four years.

"We've been developing a set of 11 management competencies we can use worldwide", he says.

"The aim is to have a clear objective measure of potential. We measure such things as entrepreneurial drive, the ability to lead and develop others, and integrity. That makes up a common core of behaviours. We've tested it, and so far it seems to be culturally transferable."

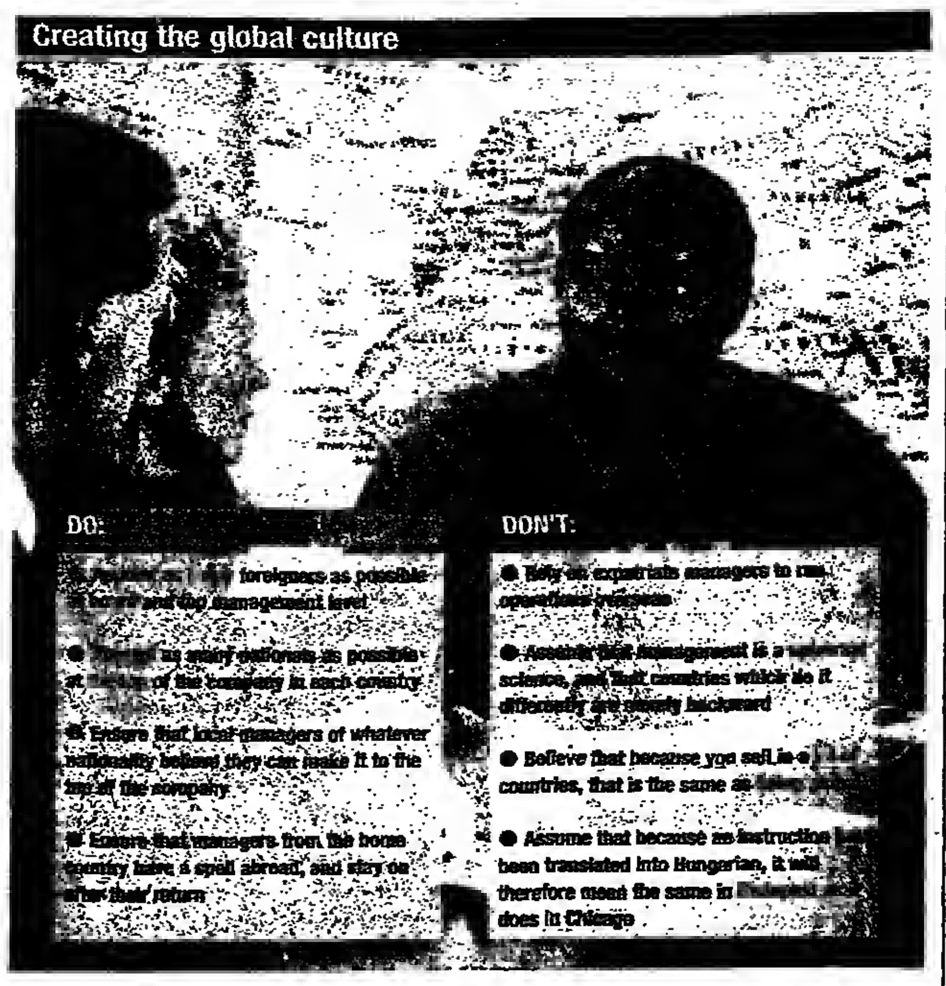
The final issue is one of communication within the global company. The personal computer, naturally, is vital. All 20,000 of Unilever's managers worldwide are on an intranet, and a further 50,000 employees are on e-mail.

But here too, there is a paradox. According to Mr Redwood of Price Waterhouse, quite a few companies are using technology to instal what he calls "buffers".

"They use it to provide time for reflection and understanding, and avoid possible loss of face," he says. "In the Asia Pacific region, the worst possible thing is to bring someone into a room and present them with a question they can't answer."

In other words, the idea that the global company represents faceless conformity is the opposite of the truth. The companies which succeed in being global will be those which best understand how to manage diversity.

Creating the global culture



Case study Ikea and Toys R Us

Wooing the world's fickle consumers

Tim Burt and Richard Tomkins on retailers with worldwide reach

Among international-minded retailers, two have set the pace: Ikea, the Swedish furniture chain, and Toys R Us, the US toy retailer. They have built up worldwide networks – Ikea in 28 countries, Toys R Us in 26 – of "category killers", giant stores which have a devastating impact on local rivals.

Ikea relies on its status as a private company to expand aggressively with margins that would not be tolerated by publicly quoted rivals. "We work differently from US groups which have to show their shareholders certain growth every year," says Anders Moberg, president of Ikea International.

It is opening 12 new stores a year in cities including Frankfurt, Shanghai, Chicago, and Wroclaw in Poland. A committee of senior executives at the group's international headquarters in Humlebaek, Denmark, oversees investment in new markets and the refurbishment or expansion of existing stores.

Responsibility for product development and purchasing lies with Ikea of Sweden, the original company that pioneered the "blond" style of Nordic furniture and furnishings which has gained a huge international following. Its latest contribution is Children's Ikea, involving a $25m refit of existing stores.

A third layer of country managers tailors the presentation and marketing of those products in their home territories. Country managers usually assume control for day-to-day activities only when there are more than two stores in their region. They are allowed some discretion in augmenting the basic range of Ikea products to meet local tastes.

At Toys R Us, by comparison, the fickle nature of children's choices requires more latitude for local managers. Toy tastes vary significantly between different cultures, says Greg Staley, president of the company's international division. For example, Asian families like educational toys, while American children are heavily influenced by Saturday morning television programmes.

Some toys, such as Barbie dolls and Lego building sets, do well everywhere. But others are less predictable. Japan's Mighty Morphin Power Rangers triggered an international craze in 1993 – but a patchy one.

"It was excellent in Australia, excellent in the UK, excellent in Canada, less important in France, and nearly non-existent in Germany," Mr Staley says. "We had very uneven results all around the world."

Headquarters decides whether to open a new store. But local managers take all day-to-day decisions on what toys to buy, and in what quantities: how to market them, and how much to spend on advertising.

"We really do give them great latitude in the management of their business," says Mr Staley.

Both companies have strong centrally imposed formats and procedures, however. Ikea has a single logistics system, funnelling the products from its bulk-buying operation into individual stores. Toys R Us also has common store lay-outs and distribution procedures, but these have to be flexible to suit local markets.

Toys R Us's distribution system, for example, is based on the idea that toy manufacturers deliver their products to centralised distribution centres, which then pass them on to the stores. In Japan, Toys R Us found big warehouses were limited in number and very expensive, so it cut the need for warehouse space by having some items delivered direct to stores and increasing replenishment cycles for other goods.

To keep in touch with local needs, Toys R Us's headquarters management travels frequently – more frequently, in fact, than the three to four visits international managers pay to headquarters each year. "We believe it's far better for our headquarters organisation to be able to interact with the country management on their own turf, in their stores, dealing with their day-to-day problems, than to try to rationalise their business issues sitting here in Paramus, New Jersey," Mr Staley says.

Own words Percy Barnevik, ABB and Investor

A multinational cadre of managers is the key

Percy Barnevik is the chairman of ABB, the Swiss-Swedish engineering company, and chairman of Investor, the Swedish investment group.

Too many people think you can succeed in the long run just by exporting from America or Europe. But you need to establish yourself locally and become, for example, a Chinese, Indonesian or Indian citizen. You don't need to do this straight away but you need to start early because it takes a long time. It can take 10 years.

Globalisation is a long-lasting competitive advantage. If we build a new gas turbine, in 18 months our competitors also have one. But building a global company is not so easy to copy.

ABB has virtually finished building its global structure. The main task now is to bring more executives from emerging countries in eastern Europe and in Asia into the higher levels of the company. We have 82,000 employees in emerging economies. We have to bring the best of these to the top. This takes time.

Building a multinational cadre of international managers is the key. It is one thing for a chief executive himself to be a global manager. It is quite another to persuade other executives to think and act globally. At ABB we have about 25,000 managers. But not all of these need to be global managers. We have about 500.

Very rarely would you get a global manager from outside. Of course, companies such as Shell and International Business Machines have such people, but there are relatively few available to hire. Also it's better if people grow up with ABB values. It's difficult to digest our culture if you have spent 10 or 20 years in another company.

The difficulty is that bosses tend to attract clusters of people from their own nationality around them. They do this not because they are racists, but because they feel comfortable with people they know best. You get a German cluster or a Swedish cluster. So you must make sure that when a boss selects managers, he considers people from other countries. And you must make sure good people from other countries are available to him.

Managers have to be asked to supply lists of potential candidates for work outside their countries. Then, if a German manager selects four Germans for a task, you will be in a position to suggest an Italian or an American and ask him to think again.

There's a disadvantage in doing this because you lose a little since maybe they will all have to speak in bad English instead of in German or whatever. But the advantage is that you get the best people in place. And you build a global company.

Interview by Stefan Wagstyl

In Friday's FT: The American experience
Southern Company and Enron

The alternative city of antiques

Paul Jeromack discovers a flourishing market for art and antiques in the American capital

"You're going to Washington for an art fair?" a local New York dealer friend asked, incredulously. "Why would anyone bother to show anything there – New York is the centre of the market."

True enough, but when it comes to art fairs and antiques shows, Manhattan is glutted with them. The leading venue for these events, the Park Avenue Armory off 67th street, is booked solid for the rest of the year. It is easy for the local collector to lose track of all the shows.

By contrast, Washington is a city of great power, considerable wealth, and a surprising paucity of galleries and shops.

"It's definitely not a 'shopping' city," admits William R. Burris, director and organiser of the International Fine Art & Antiques Fair for America, held in Washington last month. "In that sense, it's like Maastricht . . . there is little there aside from its location and convenience to collectors."

Unlike other organisers of art fairs, Burris has no connection with the art world.

"I'm in the exhibition business – everything from computers and electronics expos to newspaper publishing conventions." Although Burris and his wife used to live in Washington, he returned to it in circuitous fashion, after managing several successful fairs in the far east.

"In 1991, I did the first art and antique fair in China under the sanction of the Chinese government, which wanted to legitimise the art trade there. Julian Thompson, deputy chairman of Sotheby's, came over and suggested we try Singapore next. There is tremendous wealth in south-east Asia right now – in Malaysia, Indonesia, Thailand and the Philippines – and so we launched 'Tresors: the International Fine Art and Antiques Fair for Asia' to explore that market. We had our sixth successful show last April, and several of our exhibitors there wanted me to try a show in America. New York, I thought, was too overcrowded with shows and I saw Washington as a much more attractive alternative."

Extolling his former hometown with a touch of anti-Manhattan feeling, Burris says: "There are definitely collectors who don't go to art fairs in New York City – and they are not going to buy from a New York dealer. They'll just hop on a plane and go to Europe instead. To assume that the US market is reached entirely through New York is like saying the European market is reached only through the Maastricht Fair or Grosvenor House. There are a lot of us, who, when we migrated east, did not automatically head for Manhattan but came to Washington DC out of choice."

Burris describes Washington as "a major destination city, and very accessible to commuters. You can get in and out of Washington's airports much faster and easier than you can Kennedy or Newark airports. Not every CEO in the world has a reason to go to New York, but every CEO can find a reason to come to Washington."

Burris has cleverly poised his 1998 follow-up show to coincide with the annual World Bank meetings. "Normally, Washington is not a financial centre, but every other year when the International Monetary Fund meetings are held here, 10,000 bankers from all over the world (and this figure does not include their wives) descend. As you can see, we are investing in this project for the long term."

As for the show itself, Burris admits that: "We hope to get all the bugs out the first time . . . there are new contractors, electricians . . . we want to see what works here and what doesn't."

The locale, the National Building Museum, offers a soaring enclosed courtyard ("More impressive than that Armory, isn't it?" cracks Burris), an ideal background for the 40 exhibitors. The booths were of variable quality. Least attractive were Radana Fine Art from Bali, which offered indigestible contemporary Asian kitsch, and local dealer Lynne Flexner, who showed "master drawings" and a battered ruin of a Flemish landscape. Most exhibitors were of a higher level, reflecting the conservative, English-inspired tastes of the majority of Washington collectors. Nineteenth century European anecdotal and hunting paintings (MacConnal-Mason and Frost & Reed of London) and American paintings and furniture (Ira Spanierman of New York and Wolman & Wolman of Alexandria, Virginia) featured. Contemporary art, too, tended towards the conservative and figural as shown at Caldwell-Snyder and Eleanor Ettinger (both of New York).

Watch, silver and jewellery dealers were very much in evidence, the latter notably by D.S. Lavender of London, which featured fine 19th century historical revival styles to the high-voltage glitz of Fulvio Maria Scavia of Milan, which defied the conservative trends and turned out to be one of the crowded booths of the fair. More rarefied were the illuminated manuscripts and Mesopotamian cuneiform tablets offered by Akron, Ohio dealer Bruce Ferrini, and old master pictures offered by London's Derek Johns.

Proving that Washingtonians are starved for night life and shopping adventures, opening night was packed with more than 1,000 attendees. Although few expensive works had been sold by the end of the show (most dealers were closed-mouthed but satisfied), everyone agreed it was a successful start.

"I added more than 20 new names to my mailing list," noted Derek Johns on the last afternoon. "All collectors I had never heard of or seen before. Oddly enough, all of the really serious people I met were from Bethesda, Maryland. I don't know what that means, but I'm going up there tomorrow."

Theatre

Nostalgic scent of youth and stardom

There is a whiff of *Five Guys Named Mo* about the Tricycle Theatre at present. *Kat and the Kings*, a joyous musical imported to the theatre from South Africa, has many of the same ingredients as the *Five Guys* recipe: toe-tapping songs; sharp dancing; blazing energy; good humour and a heady puff of nostalgia. Oh, and there is the slenderest of story lines to keep things moving along.

The show is based on the experiences of one of its performers, the actor, singer and dancer Salie Daniels, who was in a band in Cape Town in the late 1950s. In the hands of David Kramer and Taliep Petersen, Daniels' story becomes the tale of Kat Diamond. Kat, now 50 and shining shoes, is visited by his memories of those glory days in 1957 when he and his buddies formed a band.

In his memory, the 17-year-old Kat hangs around on the street corners of District Six, acting cool, singing songs and riding high on youth and the emergent rock 'n' roll. But when one friend's older sister, who has real talent and determination, decides to knock them into shape, they have a brief taste of stardom.

Kat and his friends style themselves the Cavalla Kings after a brand of cigarettes (one wonders how far a band would get these days called 10 Silk Cut or John Player and the Specials), polish up their shoes and their harmonies and wait for the girls to faint in the aisles.

There is a sour side to the story; the show reminds us of the grim fact that, although top of the bill at a hotel in Durban, the so-called "coloured" performers at that time would have to enter the premises round the back and spend the day working as bell boys.

But this is not the sort of musical to grapple too much with serious themes; its main purpose is to conjure up the energy and excitement of an era and of being 17 years old; and, in this, it excels.

Of the songs (by Kramer and Petersen), "Mavis", an *a capella* number sung by the boys to the accompaniment of a pair of shoes, a leather belt, two coat hangers and a box of matches, is a highlight, as is "Lonely Girl", the Cavalla Kings' swoon-inducing slow number.

Alastair Muir

Acting cool and riding high on rock 'n' roll: Jody Abrahams (top) and Salie Daniels in 'Kat and the Kings'

The cast of six (Salie Daniels, Jody Abrahams, Loukmaan Adams, Junaid Booysen, Kim Louis and Ricardo Buchenroder) are skilled singers and polished dancers, and perform with such energy that exuberance seems a limp adjective to describe them. They have great charm and appeal, soon turning their audience into delighted dance hall groupies of the 1950s. And when Jody Abrahams, playing young Kat, leaps with feline effortlessness from the top of a piano over his comrades' heads, one could truly say that the joint is jumping.

Sarah Hemming

Tricycle Theatre, London NW6, until November 8 (0171 328 1000).

Opera/**David Murray**

Verdi etched in blood

The new condoctor of Strasbourg's *Opéra du Rhin*, Jan Latham-Koenig, chose Verdi's *Macbeth* to open their season last Friday. That "bleeding chunk" of early Verdi (for it always seems a brutally compressed, even fragmented version of the Shakespearean original) has rarely looked so *blood-bolter'd* as here, in young Frank Philipp Schlössmann's designs – and to constantly diminishing effect.

Fortunately, there was more to admire in the actual performance (directed by Olivier Tambosi): clarity, clean dramatic junctures, much good singing. The dramatic shape of the opera was laid bare, despite the gory mess of Schlössmann's single decor – which leaves no room at all for gathering horror, being saturated in blood from the start.

His set consists of a broad spiralling staircase, rising up to three-quarters of the height of the stage, with awkward high-rise steps – cheaper, no doubt, than more and lower ones – between lofty, curving walls. Where staircase and walls meet, there are yards of blood-red scrawls and blotches. The chorus, whether playing witches, courtiers, servants or soldiers, wear white togs dripping with blood (except when as brave Scottish exiles, they get issued with freshly-laundered smocks).

Macbeth's acquired crown, in the same designer-matched hue, is of smooth plastic; it looks like a children's-party hat, or what a King Ubu might wear in Technicolor. Alain Fondary sang him doughtily and very loudly, without subtle niceties but with a domineering presence: more stentorian bass than baritone, more heavy monster than daring warrior.

As his Lady, the soprano Nina Rautio behaved like a grand hostess and delivered the sort of dark, raw-edged voice that Verdi wanted. Only her under-provided low register disappointed a little. Too often cautious and toneless, though her sleepwalking *scena* touched upon some deeper colours. The damned staircase thwarted both her and Roseanne alike. Rautio had to pass her nocturnal candle to a handmaid before sleepwalking up and down (there being nowhere else to go), and collected it on the way out.

After no less strenuous exercise Fondary began to sound winded. In the final act he had to cut many a phrase breathlessly short, often a half-beat before the orchestra got there (too much stair-climbing). Still, Latham-Koenig kept all the edges tautly drawn, and secured a peculiarly crisp but balanced orchestral part. He incited his Strasbourg chorus to light, incisive delivery, and kept his orchestra on a barely controlled lead.

Best of all were Andrea Papi's heartfelt Banquo and Aquiles Machado's rounded, plaintive Macduff, with Felipe Rojas making a disproportionate tenor mark in Malcolm's tiny role. Thanks to them, the opera found temperate human tones. They set the rest in a properly human perspective, and while they sang we forgot the silly, schematic pretensions of their surroundings.

Five more performances at Strasbourg, between October 11 and 21.

Theatre

Very busy being odd

The Bush Theatre, launching-pad for so many new plays and new playwrights, is celebrating its 25th anniversary this autumn. The first play to mark this is *Mackerel Sky* by Hilary Fannin, a polished, peculiar, and entertaining 95-minute two-acter that, on press night, held its audience in glee.

Fannin is an Irish actress who has worked with numerous playwrights, and this, her first play, works hard – a little too hard, but with unmistakable talent all the same – to be funny, bizarre, and eloquent. Funny it often is. "*Con*-ceive, Stephanie, *con*-ceive," Mamie Brazil corrects her ardently Catholic youngest daughter Stephanie. "You open your *mouth* to receive Jesus. There was nothing immaculate about *your* conception." And wry: "I walked three Irish miles to school every rain-soaked day to be beaten."

Mamie, her rifle-carrying mother-in-law and her three children form a spirited and daffy household. The bailiffs are coming to repossess the furniture, most of the family is warring against Mamie, and all of them cope in various ways with the long-time absence and silence of her sailor husband. Even Stephanie finally gives up hope of his return: "I imagined walking across mackerel skies to you," she says lyrically to his spirit, "But even God gives up."

The intense sophistication and occasional lyricism of the Brazils' talk is what gives *Mackerel Sky* its stylishness: perhaps over-stylishness. There is a real veneer to even the way Mamie's drab neighbour, the widower Ted, speaks. "You're my reward for 30 years with an alabaster virgin," he says in proposing marriage; but Mamie rejects him: "There are no rewards for mediocrity."

The play has irony, pathos, poetry, and wit. And yet beneath all the gloss it is somehow lightweight. Everyone is so busy being odd that both plot and emotion lack tension. Mike Bradwell directs his cast of six well enough, but cannot remove the play's strange imbalance of naturalism and staginess.

Alastair Macaulay

At the Bush Theatre, London W12 (0181-743 3388).

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

DANCE
Het Muziektheater
Tel: 31-20-551 8911
Lander-Graham-Marin: National Ballet programme of four 20th-century works – Etudes, Lamentation, Embattled Garden and Groosland; Oct 11, 12

EXHIBITIONS
Van Gogh Museum
Tel: 31-20-570 5200
Second of four summer exhibitions of drawings by Van Gogh. This time it is the turn of the works produced when the artist lived in Nuenen, 1883-1885; to Oct 12

■ BERLIN

CONCERTS
Konzerthaus Tel: 49-30-203090
Berlin Symphony Orchestra: conducted by John Carewe in works by Schubert and Liszt. With the Ernst Senff Chor and baritone Siegfried Lorenz; Oct 10

OPERA
Deutsche Oper
Tel: 49-30-34384-01
● Der Fliegende Holländer: by Wagner. Conducted by Christian Thielemann in a staging by Götz Friedrich; Oct 8
● Der Prinz von Homburg: by Henze. Conducted by Christian Thielemann in a staging by Götz Friedrich; Oct 10
● Madame Butterfly: by Puccini. Staged by Pier Luigi Samaritani; Oct 9

■ BONN

EXHIBITIONS
Kunst- und Ausstellungshalle der Bundesrepublik Deutschland
Tel: 49-228-917 1200
● Kunsthalle Bremen: selection of important works including paintings, sculptures and copper engravings from the collection of the Kunsthalle Bremen. Ranges from 17th century Dutch painting to modern photography; to Jan 11
● Sigmar Polke: subtitled "The Three Lies of Painting" this show includes some 180 loans, documenting Polke's work from 1962 to the present; to Oct 12

■ CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
● Nabucco: by Verdi. New production staged by Elijah Moshinsky and conducted by Bruno Bartoletti. Cast includes Maria Guleghina and Samuel Ramey; Oct 8, 12
● Peter Grimes: by Britten. Conducted by Mark Elder, making his Lyric Opera debut, in a staging by John Copley. Ben Heppner sings the title role; Oct 9

■ COPENHAGEN

EXHIBITIONS
Louisiana Museum of Modern Art, Humlebaek
Tel: 45-4919 0719
The Louisiana Exhibition 1997: New Art from Denmark and Scania. First of a planned series of shows which will present contemporary work from the region, this show includes new works by around 50 artists; to Feb 8

■ FORT WORTH

EXHIBITIONS
Kimbell Art Museum
Tel: 1-817-3328451
Impressionist and Modern Masterpieces: The Rudolf Staechelin Family Foundation Collection of Basel. First American showing of 26 paintings including Gauguin's Nafea Faa Ipoipo (When Will You Marry?), and works by Cézanne, Matisse and Picasso; to Jan 11

■ LONDON

CONCERTS
Barbican Centre
Tel: 44-171-638 8891
London Symphony Orchestra: conducted by Mark Wigglesworth in works by Anna Akhmatova and Shostakovich; Oct 9

DANCE
Labatt's Apollo, Hammersmith
Tel: 44-171-416 6082
The Royal Ballet: Giselle. Production by Peter Wright; Oct 8, 9, 10, 11

OPERA
Barbican Theatre
Tel: 44-171-638 8891
● The Royal Opera: The Turn of the Screw, by Britten. Colin Davis conducts a new production directed by Deborah Warner. Cast includes Ian Bostridge; Oct 8, 9, 11
● The Royal Opera: Platée, by Rameau. New production directed and choreographed by Mark Morris, conducted by Nicholas McGegan; Oct 10

■ LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Copland, Rachmaninov and Sibelius. With piano soloist Yefim Bronfman; Oct 9, 10, 11, 12

■ MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
Budapest Symphony Orchestra: conducted by Tamás Vásáry in works by Brahms, Liszt, Weber and Schumann. With piano soloist Nikolai Petrov; Oct 11

DANCE
Bayerische Staatsoper
Tel: 49-89-2185 1920
Bayerische Staatsballett: in a programme of works by Hans van Manen: Concertante, Grose Fuge and Black Cake; Oct 12

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
● Aida: by Verdi. Conducted by Roberto Abbado in a staging by David Pountney; Oct 10
● Le Nozze de Figaro: by Mozart. Conducted by Peter Schneider in a staging by Dieter Dorn. Cast includes Amanda Roocroft and Alison Hagley; Oct 8, 11
● Peter Grimes: by Britten. Conducted by Jun Märkl in a production directed by Tim Albery. The title role is sung by Philip Langridge; Oct 9

■ NEW YORK

CONCERTS
Lincoln Center
Tel: 1-212-721 6500
New York Philharmonic: conducted by Kurt Masur in works by Mozart and Franck. With pianist Helen Huang and New York Choral Artists directed by Joseph Flummerfelt; Avery Fisher Hall; Oct 8, 9, 10

OPERA
Metropolitan Opera, Lincoln Center Tel: 1-212-362 6000
Manon: by Massenet. Revival of a staging by Jean-Pierre Ponnelle; Oct 8, 11

■ PARIS

DANCE
Opéra National de Paris, Palais Garnier Tel: 33-1-43439696
Paris Opera Ballet: in Swan Lake; Oct 11

EXHIBITIONS
Musée d'Art Moderne, Ville de Paris Tel: 33-1-5367 4000
Gilbert & George: major retrospective of the British artists, comprising some 120 works and spanning their career from their meeting at St. Martin's School of Art in 1968 to the "Fundamental Pictures" of last year; to Jan 4

OPERA
Opéra National de Paris, Opéra Bastille Tel: 33-1-44731300
● Aufstieg und Fall der Stadt Mahagonny: by Kurt Weill. Conducted by Jeffrey Tate in a production directed by Graham Vick; Oct 8, 12
● Turandot: by Puccini. New production by Francesca Zambello. Conducted by Georges Prêtre until Oct 13, when Fabio Luisi takes over. With choreography by Alphonse Poulin and designs by Alison Chitty; Oct 10

Opéra National de Paris, Palais Garnier Tel: 33-1-43439696
Pelléas et Mélisande: by Debussy. Conducted by James Conlon in a staging by Robert Wilson. Cast includes Dawn Upshaw; Oct 8, 12

■ TOKYO

CONCERTS
Suntory Hall
Tel: 81-3-3289 9999
San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Copland, Bartok and Brahms; Oct 8

■ ZURICH

EXHIBITIONS
Kunsthaus Zurich
Tel: 41-1-251 8765
Arnold Böcklin, Giorgio de Chirico, Max Ernst: Voyage into the Unknown, comprising 130 paintings, collages and sketches; to Jan 18

■ TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
Monday to Friday, Central European Time:

● **NBC/Super Channel**
07.00: *FT Business Morning*
10.00: *European Money Wheel*
Nonstop live coverage until 15.00 of European business and the financial markets.
17.30: *Financial Times Business Tonight*

● **CNBC**
08.30: *Squawk Box*
10.00: *European Money Wheel*
18.00: *Financial Times Business Tonight*

Edward Mortimer

A political dwarf

Although the EU has a common foreign and security policy, European countries rarely succeed in making joint decisions

Europeans sbould face up to it: the world is disappointed in their performance.

Europe is tbe cradle of western civilisation. And post-1945 western Europe has inspired hope in other parts of tbe world by its ability to overcome age-old conflicts through a new form of political organisation – the European Union. When the cold war ended, many believed that Europe would flourish further still, becoming et last – in the jargon of strategists – a net exporter of security after decades of importing it.

That bas proved wrong. Europe has continued to "import security". Europeans were unable to prevent a new bloodbath on their own soil, in the former Yugoslavia, nor to stop it until the US came to the rescue. Carl Bildt, eppointed as mediator by the EU in 1995, says in a recent pamphlet that the US has come to dominate the Bosnian peace process.* It has done so, he says, even though it "only provided a small part of the reconstruction assistance and committed fewer troops than tbe EU countries".

American strength, suggests Mr Bildt, "lies less in an ability to devise strategies and set out policies than in a superior ability to orcbestrate action and support for wbatever policy happens to be theirs at any given moment".

It is tbis ability that Europe lacks, making it, in a phrase that Franz Josef Strauss once used of Germany, "an economic giant but a *political* dwarf". The mucb-touted common foreign and security policy rarely gets beyond the declaratory stage.

This is because the US, in spite of its name, is in the international context a single state, able to co-ordinate its levers of influence and deploy them in the service of a single policy (when it has one). The EU, in spite of its name, is not a union in the same sense.

Another contributor to the pamphlet, Franz Vranitzky, the former chancellor of Austria, puts the point clearly: "When a crisis erupts somewhere in the world, the foreign ministers of the EU member states start discussing a common decision, not on the basis of a common evaluatioo but on the basis of 15 different evaluations."

That problem is meant to be remedied by the creation, under the Amsterdam treaty, of a Policy Planning and Early Warning Unit within the EU council secretariat. But this will not be enough. It does oothing to correct the artificial distinction created at Maastricht between foreign policy proper (dependent on intergovernmental co-operation) and external economic relations (handled by several, rival, departments of tbe Commission). As Loukas Tsoukalis, a third contributor to the pamphlet, says – these arrangements "almost guarantee by tbemselves the EU's ineffectiveness as a world player".

In the words of the pamphlet'a editors, the new treaty "puts the articles covering common foreign and security policy in a more logical order". But the two elements it introdnces – the planning unit and designation of the secretary-general of the council as "high reseotative" for co-ordinating policy – will make the decision-taking structure even more labyrinthine than before.

Europeans' disappointment with their own performance is shared by many Americans. It is the main theme of a new book by John Newbouse, an experienced and sympathetic US reporter.** Noting the failure of the treaties of Maastricht and Amsterdam to produce "a great leap toward political union", be considers it "unlikely that Europe, or any large part of it, will become a political entity capable of joint deciaion-making". Europe, be thinks, probably doesn't bave "sufficient cultural unity to develop any epproximation of political unity".

For Mr Vranitzky, what is lacking is "the degree of mutual trust" needed for a real common policy. He thinks such trust can yet be built up, but only gradually: "This process of gradual harmonisation ... cannot be replaced by 'revolntioos' at the institutional level. The instruments of foreign policy are only as good as the political will to use them."

I do not quite agree with either view. Yes, political unity presupposes a degree of cultural unity. But how is cultural unity achieved? In part, at least, by the experience of sharing common institutions and the need to make them work.

Certainly that is how tha prototypical national cultures of the west – French, British, American and, arguably, Russian – were formed. And Mr Vranitzky's own Austria clearly derives its national identity from institutions. Without the Hebsburg monarcby and the post-war republic, Austria would be simply a region of Germany.

If Adenauer, Monnet and Schuman had waited for European cultural unity before forging European institutions, there would never have been a European unlon. Polltical will is required not only to use institutions, but even more to create them.

I agree with Mr Newbouse that Europe's priority in the 1990s should have been enlargement – the inclusion of the liberated cousins from the east – rather than economic and monetary union. But at least those who believe in Emu have had the political will to drive it through against an enormous weight of scepticism. Those wbo believe in a common foreign policy, like Mr Bildt and Mr Vranitzky, must sbow themselves equally determined.

Bildt: the US is dominating the Bosnian peace process

**Whnt global role for the EU? Philip Morris Institute, 6 rue des Patriotes, B-1000 Brussels*

***Europe Adrift, Pantheon, $27.50*

Edward.Mortimer@FT.com

Fire and brimstone

Sander Thoenes reports on Suharto's economic woes

The smoke from Indonesia'a forest fires bas barely reached the skies above Jakarta. While millions cough and cry from the fumes on the islands of Sumatra, Kalimantan, Sulawesi and Irian Jaya, the smog in the capital can be blamed only on the perennial traffic jams.

Neither has the recent crash of the currency, the rupiah, nor the slide of the stock exchange yet filtered through to the man on the Jakarta street. These financial setbacks have so far only been felt in the corporate boardrooms high up in the dozens of brand new glass towers.

Only half a million Indonesians – ont of a population of 200m – own shares. And only a few dozen families control the large banks and enterprises that have seen their unhedged debt skyrocket as the rupiah sank.

But President Suharto has noticed. As his sixth five-year term comes to an end – making him, with King Hussein and Fidel Castro, among the world's longest-surviving rulers – Mr Suharto has witnessed an unexpected twist in his country's economic success story.

For the first time in years, growth will fall below 7 per cent this year and, if the currency crisis persists, could dip below 5 per cent. That would have a devastating impact on joh creation in a country plagued by under-employment.

On the political front, riots marred parliamentary elections in May, spoiling what the president had called a "feast of democracy". As if this were not enough, he has had to admit – twice and in public – that his government has failed to contain the forest fires that have sent a choking haze over five neighbouring countries in the past three months.

"For that reason, Indonesia, once again, sincerely asks for forgiveness," he said on Sunday during a military parade before an army that brought him to power in 1965 and ensured his election in 1967.

One of his sternest critics has also taken notice, both of the fires and of the collapsing rupiah. "So far, people don't feel the effects," says Abdurrahman Wahid, leader of Nahdlatul Ulama, a moderate Moslem organisation which claims 35m members and is Indonesia's biggest non-governmental body. "Only after a few months will the devastating impact of the monetary crisis be felt by society at large."

No laughing matter: Suharto faces many problems

Foreign investors have taken notice too. The government owes roughly $50bn to foreign creditors: this had never been enough to worry them until it suddenly became worth 30 per ceut more in rupiah terms.

When the ruplah fell below Rp3,000 to the dollar in September, Mar'ie Muhammad, the finance minister, said the government would face a budget deficit of Rp9,200bn ($2.53bn) in the 12 months to March 1998 unless it made big spending cuts. He subsequently announced cuts of Rp3,200bn, mostly delays in infrastructure projects, but has yet to announce others. Indonesia is legally committed to a balanced budget.

Even before the latest ruplah fall, Ida Bagus Sudjana, mines and energy minister, said the currency crisis had raised the cost of subsidles on oil products to Rp3,000bn, nearly a third more than budgeted for the whole financial year. Mr Sudjana said the government might raise domestic fuel prices, especially diesel oil and kerosene, bnt he called for a cross-subsidy by industry of the oil products used by private consumers. More than 60 per cent of rural bouseholds rely on kerosene for energy and lighting. Another minister lobbied for reforms that would probably have led to higher prices for basic foods.

Few believe the government will dare upset Indonesia's poor with a sharp increase in prices. But Mr Wahid predicts that prices will rise sharply regardless, because of a severe drought and the effect of the falling rupiah on import costs.

"For now there are price rises but not yet steep ones," Mr Wahid says. "But work stoppages are taking place because factory owners don't know any more how to calculate their cost [and fail to pay wages]. Workers are being laid off. More importantly, a shortage of goods will occur because imports will become unaffordable. Shop owners are complaining that they can't raise prices any longer because people won't buy. People will be angry." On Monday, Moslem students in Jakarta demonstrated outside Bulog – the state monopoly that regulates food prices – demanding the resignation of its director and a price freeze on staple foods.

Mr Wahid is not predicting a popular uprising. But the timing of even limited unrest could have e powerful impact on the presidential elections in March, he says. It could also precipitate a backlash.

"The anger will come, and it will come precisely around the time the Consultative Assembly meets," Mr Wahid says, referring to the hand-picked gathering that will elect a president and vice-president. "The president is a stubborn man. He will cling to power, perhaps taking drastic measures against possible competitors, including more restrictions on political life."

This week, General Feisal Tanjung, chief of the armed forces, gave a hint of what might lie in store when he vowed to crack down on any opposition movement that disturbed the elections. Mr Wahid responds belligerently: "If there are any unconstitutional actions, then we will not hesitate to use our force to defend democracy ... We can bring 2m people to the streets of Jakarta alone. That is my warning."

Few believe that either the ontbreak of fires or the economic downturn will be sufficient to rally support for a rival presidential candidate. Mr Suharto, 76, has made clear he will be running for a seventh five-year term.

But opposition leaders and sympathisers alike predict that public unrest would undercut his stature in the military and restrict his ability to pick e successor wben the time comes. Even in better days, the vice-president, Try Sutrisno, was foisted on Mr Suharto by the army.

Even if it takes two months, Indonesia's fires will eventually be put out by the monsoon rains. But it will not be so quick or so easy to end the political and economic aftermath of the currency crisis. Mr Suharto will be left with the delicate task of balancing domestic concerns with those of international investors. He just might get his fingers burnt in the attempt.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Employment guidelines for EU ambitious and ground-breaking

From Mr Padraig Flynn.

Sir, I find your bostility to the European Commission's employment guidelines proposal rather baffling ("EU job targets", October 6).

The reality is that the Commission has broken new ground by calling on member states of the European Union to focus their efforts on four interlinked lines of action – entrepreneurship, employability, adaptability and equal opportunities – and to do so in an integrated way and as part of a comprehensive strategy.

Far from setting detailed prescriptive targets for each member state, the Commission is suggesting that eacb government draw up a detailed action plan that reflects its own circumstances and national conditions.

In order to facilitate the monitoring of performance, as provided for in the Amsterdam Treaty, these plans must be drawn up and implemented within a common European framework, although the content will be unique to each member state.

The longer-term objective set out in the guidelines is to move progressively towards an employment rate of more than 70 per cent in line with those of our principal trading partners. We believe that it is possible to achieve a Union-level employment rate of 65 per cent within five years. As the guidelines make clear, however, this can only be achieved on the basis of current favourable economic outlook and decisive action by the member states themselves to tackle labour market rigidities.

Setting an aim in this way is, of course, no guarantee that it will be reached, but it does nevertheless establish a Union-level target which can motivate and mobilise policy makers at all levels. The achievement of demanding Emu targets by so many member states is a reassuring precedent.

What is "foolish" or "objectionable" about the following ambitious – even radical – suggestions that are contained in the guidelines?

- the need to rednce the overhead cost of hiring an additional worker;
- removing obstacles, especially within social security regions, to self-employment;
- making our taxation and credit systems more employment friendly ("passive employment benefit support should be regarded as a last resort");
- improving the service offered by employment services to both employers and job seekers;
- increasing participation in apprenticeship systems and training opportunities for the unemployed;
- improving the status of part-time workers;
- refocusing state aid policies on upgrading the labour force while respecting Community state aid provisions.

Padraig Flynn,
Member of the European Commission,
Rue de la Loi 200,
B-1049 Brussels,
Belgium

Luxembourg deserves EU mention

From Mr Thierry Lippert.

Sir, Having read your article "Emu: who'a going to make it?" (September 30), and especially the attached table, I was astonished that Luxembourg was not mentioned in it.

Even though a very small country, Luxembourg is still a founding member of the EU, and is not doing too badly in relation to entering tha first round of Emu.

As a daily reader of your newspaper, I sometimes get the impression that my country is economically integrated with Belgium. While this may be the case in a number of instances, as a sovereign state Luxembourg deserves to be at least mentioned. Being a staunch European, I hope that in a short period of time we will all be able to speak about a united Europe as one "country", but as this is not so at the moment, please note that the EU consists of 15 member states, and not 14, which is what some of your articles indicate.

Thierry Lippert,
36 Dragan Tzankov blvd,
EC Delegation,
BG-1040 Sofia, Bulgaria

Get on the line to hold up the train

From Mr Konrad Tomica.

Sir, Reading "Deutsche Bahn to tackle late trains" (October 2) reminded me of an toteresting conversation last year with a DB guard on the intercity from Hanover to Frankfurt. The train had arrived punctually in Hanover, but an unusually long stop meant we would be more than 20 minutes late by the time we got to Frankfurt – and I would, and did, miss my local connection.

The guard told me that he had learned that a passenger in Hanover must by some fluke have overheard on his mobile phone a DB executive telling the Hanover signals point over the airwaves to hold the train for a few minutes because his taxi was stuck in the traffic on the way to the station and he did not want to wait for the next intercity. If he gets a bonus he should invest in a more secure communications system.

Konrad Tomica,
Spessartring 2,
61381 Friedrichsdorf,
Germany

New criteria applied on arms deals

From Lord Clinton-Davis.

Sir, Your report "Indonesia arms deals approved" (October 4) needs clarification.

On May 22, the foreign secretary announced that we had initiated an urgent review of the criteria used in considering licence applications for the export of conventional arms. On July 28, the foreign secretary announced the new criteria, and said that they would be used when considering all future individual applications for licences to export goods entered in Part III of Schedule I to the Export of Goods (Control) Order 1994, and existing licence applications on which a decision had not been made at the time of the announcement.

The criteria will also be applied when considering advance approvals for promotion prior to formal application for an export licence and licence applications for the export of dual-use goods when there are grounds for believing that the end user of such goods will be the armed forces or the internal security forces of the recipient country. Of the 15 decisions referred to in your article, one was taken before the review was initiated.

Quite simply, it would not be practicable to publish separately details of each and every decision on applications for an individual licence as soon as the decision is taken. However, this government is committed to the publication of an annual report on UK strategic export controls. This will set out the state of export controls and report on their application, in line with our manifesto commitment to increase the transparency and accountability of decisions on export licences for arms.

Lord Clinton-Davis,
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COMMENT & ANALYSIS

FINANCIAL TIMES

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Wednesday October 8 1997

Turkish plight

Turkey is the latest emerging market to be riding a wave of optimism. Its 1998 budget and economic forecasts have sent the stock market soaring. But a deeper look at these forecasts reveals an alarming lack of substance behind the good news.

The Turkish stock market has risen by 20 per cent in the last two weeks, and by over 40 per cent since the current government took power. Meanwhile, foreign investors, attracted by some of the highest real yields in the world, have helped drive yields on government bonds down by about a fifth.

On the surfaee, there are grounds for the new optimism. The draft budget, to be presented to parliament next week, projects a fall in the fiscal deficit from over US$17bn (9 per cent of GDP) this year to $15.6bn next year. Inflation is now officially forecast to fall from its current level of 85 per cent to 50 per cent by the end of next year. And an agreemant between the government and the central bank, due to come into force next year, should end central bank financing of the fiscal deficit.

It is not hard to see why the financial markets have reacted with glee to such news. Promises, though, are easy to make. If the substance of reform is examined, it swiftly transpires that very little is being done to make these promises reality.

Turkish governments have a history of breaking their budget forecasts. The government has given little hope that 1998 will be any different. Yet Turkey is ripe for fiscal reform, with taxes only 15 per cent of gross domestic product and widespread tax evasion.

There is little chance of curbing inflation effectivaly until the fiscal position is under better control. But the measures announced so far have been of marginal value. Fundamental reforms have been ruled out by a weak coalition government unwilling to do anything that might harm economic growth, with an election a year away.

The same fear of radical action is likely to render almost useless the agreement between the government and central bank. Indeed, in delaying its implementation until the beginning of next year, Mesut Yilmaz'a government has already damaged its credibility.

Avoiding painful reform may help Mr Yilmaz's chances in the next election, but it is shortsighted. The capital inflows that have boosted the Turkish markets could just as easily and quickly become outflows should reform be seen to be failing. The prima minister should realise that the long-term future of the centre-right coalition is in peril if the economy continnes to deteriorate, and act to fulfil his government's promises.

Tory travails

After Winston Churchill'a calamitous electoral defeat in 1945, the Conservative party was left with 1m members. By 1950 it had increased that number to 2.75m and, a year later, the party was back in government.

The task facing William Hague, the Tory leader, is bigger still. Only 180,000 activists voted in the ballot to endorse him as leader. On the most optimistic estimate, the overall membership has fallen to 400,000. The average age is 64.

So Mr Hague was right to emphasise at the outset of the the party's Blackpool conference that Conservatives must rebuild and modernise their organisation. His proposals, endorsed by 80 per cent of those who voted, call for tighter discipline at the centre – particularly as regards allegations of sleaze – alongside a greater say for members in the choice of the leader and policies.

So far, so good. Bnt if the party was clearly outgunned by New Labour during the election campaign, it would be fatal to believe that weak organisation is responsible for its present predicament. At 31 per cent, the Conservative share of the vote was the lowest this century. That reflected a much deeper disillusion among the voters.

So reform of policy needs to be every bit as radical as an overhaul of its organisation. The starting point must be a certain humility about the past. It is no good listing past achievements without confronting the fact that tha voters took a decidedly different view.

Change must also entail a willingness to see the world as it is rather than as it might have been. Here, Conservatives should put a premium on pragmatism over dogma. As tha opposition, they should harry the government. But the ground should be carefully chosen. Devolution, for example, is now a fact of life. The people of Scotland and Wales, who declined to elect a single Tory MP, will not thank Mr Hague if he does not recognise that.

Above all, Mr Hague must rasist tha siren voices of English nationalism heard from the Eurosceptic right. Lord Tebbit's unpleasant attack on Britain's multicultural society and an appalling suggestion from Alan Clark, the Tory MP, that the way to deal with the IRA was to "kill 600 people in one night" offer vivid examples of such dangerous extremism.

Mr Hague, inexplicably, has already felt it necessary to rule out joining a single European currency for 10 years – a stance that is neither principled nor pragmatic. To fall into the arms of little England would simply be to invite the voters to punish the party again at the next election. Churchill's Conservatives won recruits because they were ready to adjust to the mood of the times. Mr Hague must do the same.

Steel futures

Does European steel, long a byword for past industrial failure, have a future? Europe's steel companies think so. They are putting behind them a reputation for heavy losses, big subsidies and inefficient practices. Following 10 years of restructuring, a profitable industry is emerging from decades of government interference.

But this is not enough to survive in today's global markets. Having put its house in order, the industry urgently needs to start looking outwards. As this week's annual conference of the International Iron and Steel Institute has heard, the fastest growth in steel is in developing countries, notably in east Asia. European Union steel makers, though long-standing exporters to these regions, have been slow to invest outside the EU.

There are signs this is changing. British Steel has led the way: it has already invested in two US mills, and is now considering a large Indonesian project. Further progress towards globalisation depends mainly on companies themselves. But there is still much governments can do to promote a more outward-looking industry.

First, they should fulfil promises to give up state aid. While recent hand-outs have involved modest payments to small companies, they are still unhelpful because such marginal producers must close if bigger rivals are to become more efficient.

Next, governments should press ahead with energy liberalisation. There are suspicions that some state-owned electricity groups sell power to steel companies on favourable terms to protect jobs. Only electricity privatisation will create transparent pricing.

Further, the Commission should ensure EU markets are open to imports so prodncers feel the rigours of global competition. Recent market-access agreements with Russia and Ukraine are welcome.

Finally, tha Commission should stick to its guns in seeking to abolish the steel industry levy next year. This tax of about Ecu100m ($111m) annually helps finance the European Coal and Steel Community, the forerunner of the EU that still governs coal and steel. The money mainly supports redundant workers and collaborative research. The Commission says tha ECSC could fund the schemes from its very large reserves. But some members of the European Parliament have opposed the plan, calling for the money to go towards job creation.

Steel should not finance their ambitions. Better to cut the psychological tie with a bygone era of insularity and state domination, and use the research funds to encourage links with steel makers in developing countries.

The euro-creature

Europe's economies are recovering but, **Robert Chote** argues, they are diverging too much to ensure Emu gets off to a smooth start

The European economy is pulling out of the doldrums. Growth is set to reacb 2.5 per cent this year and to rise further in 1998. That is good news as far as it goes. But the average masks big differences in performance: the continent'a biggest economies remain sluggish, while some of the smaller ones are in danger of overheating.

And those differences could pose serious problams in the early years of Europe's economic and monetary uninn. Europe's proposed single currency, rather lika an economist's version of Frankenstein's mnnster, is starting to look like an attempt to create new life nut of old body parts. In less than 15 months the creature will be unveiled. Europe will then find out if it is destined to be a force for good or, like its fictional counterpart, its creators' nemesis.

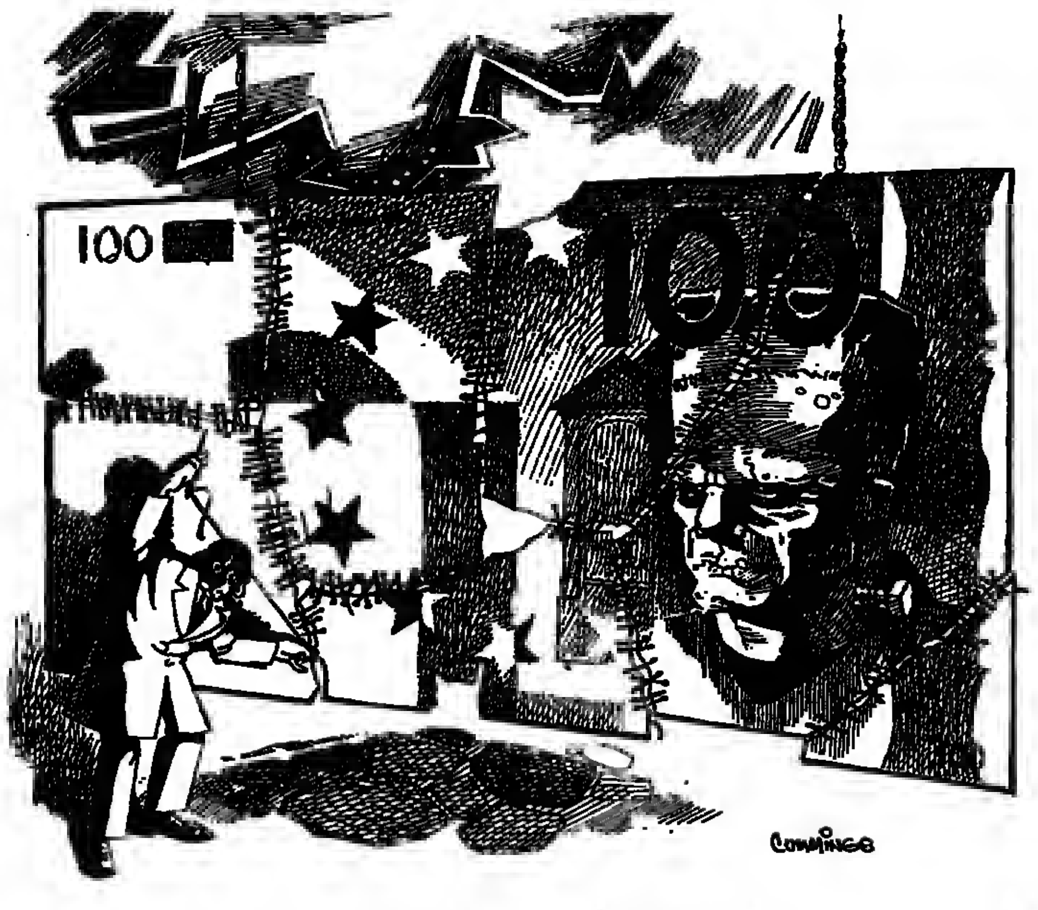
But, in a novel twist on the old story, the creature is showing signs of life even before work on it has finished. Some of the single currency's benefits bave manifested themselves already: Europe is enjoying stable exchange rates and low inflation. So too have some of its costs: interest rates are converging at a tima when Europe's economies are a different stages of growth and recovery, and hence there remains a need for different rates in different countries. The body parts do not fit together as well as Frankenstein might wish.

As a precondition for the creation of a stable euro, the Maastricht Treaty laid great emphasis on the need for national inflation rates and budget deficits to converge at low levels. This is what has bappened. Look at the 11 European countries that are plausible participants in monetary union from the outset. The International Monetary Fund predicts that their inflation rates this year will vary from a low of 1.1 per cent in France to a "high" of 2.3 per cent in the Netherlands. As recently as 1990 the gap between highest and lowest would have been almost 10 times as large.

Bnt this convergence masks stubborn differences in underlying economic conditions, both in structural rates of unemployment and cyclical levels of economic activity. Those differences raise the question: is Europe really ready for a "one size fits all" policy?

Formally speaking, the participants in monetary union should not be committed to a common interest rate until the single currency comes into being on January 1 1999. But interest rate convergence has been accelerated by the recent meeting of European finance ministers in Luxembourg. They decided that the bilateral exchange rates at which first-wave participants in monetary union will be locked together should be annnunced next May wben the "ins" and "outs" are named.

As long as the investors remain confident that monetary union is going ahead – and that the proposed bilateral rates will not be changed during the rest of 1998 – futures markets will reflect the fact that currencies will be locked together from January 1 1999. Forward interest rates should also be identical from that day, for January 1 1999 onwards, barring any small variations that reflect perceptions of default risk in each country.



But it will still be possible for interest rates to differ from one country to another: central banks can still influence these rates through money-market operations, as they do now. But with long-term exchange and interest rates as good as eliminated by the May announcement, spot exchange rates sbould adjust automatically so that there is no incentive for investors to move into another euro-area currency to taka advantage of higher interest rates.

Europe's central bankers are well aware of this. They also know that sbort-term interest rates affect economic activity and inflation because of their impact on longer term rates as well. So from May, when longer-term rates will be determined by conditions in the putative euro-area as a whole, the weapon of domestic monetary policy will only survive in drastically weakened form.

This suggests that national policymakers might as well forawear domestic activism right away and opt to manage tha transition to a single interest rate in co-ordinated fashion. This should help minimise investors' uncertainty. "After May, monetary policy is likely to be explicitly co-ordinated, and even before May it is likely tn be seen as semi-co-ordinated," argues Gavyn Davies, chief economist at Goldman Sachs in London. As one leading European central banker points nut, there will be plenty of opportunity for central bank governors and presidents to meet informally in the run-up to May and beyond.

The Bundesbank will play a central role in this process. Its senior officials accept publicly that in coming months they will have to set monetary policy with reference to the needs of the euro-area as a whole rather than Germany alone.

Goldman Sachs expects the German repo rate to rise from its current 3 per cent to 3.4 per cent by the end of this year and 4 per cent next May. Most analysts expect rates in the would-be euro area to converge at around 4.5 per cent, not far from their current weighted average.

This implies big shifts. Look at the starting points. At the end of last week Germany, France, Finland and tbe Netherlands all had three-month interbank interest rates of less than 3.5 per cent. But Spain, Italy, Ireland and Portugal had rates of between 5 and 7 per cent. In other words, rates would rise for the first group and fall sharply in in the latter, accelerating an existing trend.

Would such movements suit differing national circumstances? "Only in two countries – the Netherlands and Italy – would a rapid convergence of short-term interest rates be justified on domestic fundamentals," argnes Richard Reid, chief European economist with UBS in London. "In Germany and France it would exacerbate the problems being faced by weak domestic economies, while in Ireland, Portugal and Spain it would cause a build-up of inflationary pressures."

Cyclical differences within the European economy can be illustrated by looking at the extent to which output of goods and aervices in each country exceeds or falls short of the "potential" level which economists assume to be consistent with stable inflation – the so called output gap.

In its most recent forecast, the Organisation for Econnmic Co-Operation and Development predicted that output would be more than 2 per cent below potential this year in France, Italy, Spain, Belgium and Luxembourg. Germany, Austria and Portugal would be more than 1 per cent below potential, Finland would be 0.4 per cent below potential, while Ireland and the Netherlands would be slightly above potential.

Growth rates also vary markedly from country to country. Spain may have a relatively large output gap, bnt accelerating domestic demand means it is on course for uncomfortably strong annual growth of about 4.5 per cent. As in several other European countries, buoyant exports have prompted stronger domestic investment, job creation and rising consumer confidence. In the Netherlands, pre-election tax cuts are set to add further fuel to already strong consumer spending.

"The Netherlands and Spain are set to grow much faster than the euro-area as a whole," argues David Mackie at JP Morgan. "With no room to tighten monetary policy, they should be tightening fiscal policy in the year ahead. Yet in the Netherlands fiscal policy will provide an outright stimulus to demand next year, while in Spain it will be broadly neutral."

With a few exceptinns, Europe's smaller economies have nutperfnrmed its larger ones for some time. Domestic demand in France, Italy and Germany has risen by less than 1 per cent a year on average over the last five years. The IMF blames this "exceptional sluggishness" nn timid interest rate cutting, reluctance to tackle labour market rigidities and over-reliance on tax increases to reduce government borrowing.

But prospects for the big economies do look brighter. "Output in both Germany and France is projected to rise by 2.75 per cent in 1998 – growth that would narrow output gaps, though only modestly, for the first time since 1994," the IMF said last month.

Exports remain the mainstay of recovery in Germany, with high unemployment and weak disposable income growth suggesting that the second quarter spurt in consumer spending is probably unsustainable. Hopes that the pace of economic expansion in France will accelerate through the rest of the year were buoyed by last month's upbeat Insee survey of manufacturing prospects. Consumer confidence in France has picked up sharply since the general election, but needs stronger employment growth to underpin it.

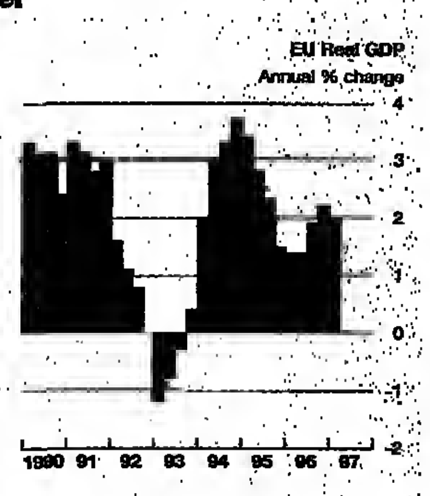
Differences in domestic economic conditions suggest that several countries will find convergence to a single euro-area interest rate uncomfortable. Inflexible labour markets and unresponsive fiscal policies mean that these differences are likely to persist for some time within the monetary union, producing painful shifts in competitiveness.

This was always going to be the case. Very few economists would describe the broad monetary union which looks set to emerge in Europe as an "optimal" currency area. It lacks the flexibility and mechanisms for fiscal redistribution which have helped other large currency areas. In coming months Europeans may, like Dr Frankenstein, realise that, because of the way they have designed their creature, it will be harder to control than they had ever imagined.

Inflation converges, but growth rates differ

Candidates for Emu	Inflation 1997 forecast (%)	GDP growth 1997 forecast (%)	Output gap % GDP 1997	3 month interbank interest rate (%)
Germany	[illegible]	2.3	-1.2	3.40
France	1.1	2.2	-2.3	3.43
Netherlands	2.3	[illegible]	0.1	3.45
Belgium	1.8	2.2	-2.4*	3.68
Austria	1.5	[illegible]	-1.3	3.53
Finland	1.3	4.7	-0.4	3.42
Ireland	[illegible]	7.3	0.7	6.19
Spain	2.0	3.1	-2.3	5.06
Portugal	[illegible]	[illegible]	-1.1	5.22
Italy	1.8	1.2	-2.3	6.61
Luxembourg	[illegible]	[illegible]	-2.4*	n.a.

* Belgium/Luxembourg combined
Sources: OECD, IMF, Reuter; Datastream/ICV



OBSERVER

Baron years

■ Prince Alwaleed bin Talal hasn't done badly out of investing in ailing companies, from Citicorp to Apple Computer. But his latest venture comes complete with a reminder that getting into elderly brands can be a risky business.

The 41-year-old nephew of Saudi Arabia's King Fahd is buying into Movenpick, a Swiss restaurant and hotel chain that has seen better days. His new partner is the aristocratic German Baron August von Finck, 67, who bought control of the company in 1991 and may wish he hadn't bothered.

The Fincks were once big noises around Munich but the baron sold the family bank Merck, Finck & Co to Barclays in 1990 and switched to Switzerland, buying into Movenpick, Oerlikon-Buhrle and Alusuisse. Only the last can be described as an unqualified success.

The baron's remaining German investment was Lowenbrau, but his love of good German beer didn't help turn the 600-year-old brewer round: last month he ceded control in a bid to stem its losses.

Ten years ago, von Finck was well ahead of Prince Alwaleed in the league of the seriously rich. Now he's slipped off the list, while the Saudi prince is poised to become one of the world's top 20 billionaires.

Strong man

■ Liam Strong, off to WorldCom International after a brief spell of unemployment in the UK, may have suffered the worst press since Richard Nixon, but his new job proves he knows a thing or two about marketing – himself.

Strong's appointment at fast-growing US telecoms group WorldCom provoked a sharp intake of breath in the City of London. After a succession of top jobs, including periods with Procter & Gamble and British Airways, he came badly unstuck at Sears, the UK retailing conglomerate. His attempts to revive an already ailing business proved spectacularly unsuccessful and the two parted company this year.

Some of those who've worked with him say he's no judge of people and too often can't make up his mind. But he's also praised for his tireless energy and downright likeability.

At WorldCom, he'll be leaving much of the work to chairman Colin Williams, from whom he takes up the chief executive's responsibilities. With one London analyst suggesting he'd sell any shares in a company employing Strong, the new man knows he's going to be closely watched. One pay-off may be unfortunate; two could be terminal.

Off-roader

■ Japanese car maker Nissan hasn't done badly in the US, though lately its marketing has been more impressive than its sales figures. Its quirky "Enjoy the Ride" campaign has turned a lot of heads, but hasn't turned the punters' steps towards the showrooms. It looks like Nissan Motor US chief executive Robert Thomas has paid the price.

Even with price cuts to back up the razzmatazz, Nissan's Altima saloon, which it builds in Tennessee, is being left on the hard shoulder by Toyota's Camry and Honda's new Accord. Even its Pathfinder – in the fashionable sports/utility bit of the market – has lost the way.

The official line is that the former Ford man has quit to "pursue other interests". He won't be idle – in June, President Clinton put him on a seven-strong panel that is supposed to stomp the country for a year then come up with clever wheezes on how to close America's racial divide.

Minoru Nakamura won't be idle either: he is adding Thomas's job to his current duties as president of Nissan North America. Life won't be easy for the 33-year company veteran – Nissan has been pitching hard in the saloon car market, which is a pretty sticky place just now as Americans seem to want to drive about in sporty four-wheel-drives. Something to do with the urban jungle, no doubt.

Custom cars

■ Vietnamese officialdom can't seem to get the hang of being helpful to foreigners – not even Ford, one of the largest US investors in Vietnam with a $102m assembly plant almost completed.

The company had been looking forward to Vietnam's annual auto show – but when it started yesterday, the Ford stand stood empty. Customs had refused to allow the company's exhibits into the country because they were right-hand drive: officials said only left-hand drive cars could be allowed into Vietnam.

Appeals by Ford went all the way to the top, and yesterday premier Phan Van Khai ordered the bureaucrats to let Ford show off its motors, which should roll in today. An old Vietnamese proverb about local autonomy says the emperor's authority stops at the village gate – at least nowadays the boss sometimes kicks the gate down.

Financial Times

100 years ago

Everlasting Blotting Paper

The "Everlasting Blotter" and Advertising Company Limited is evidently confident of its powers to absorb rapidly the £10,000 of capital, for it has been content with one obscure pnblication of its prospectus. The idea is to take over a patent substitute for blotting-paper, which is described as combining "wonderful absorbent qualities with considerable weight" so that it "can be used as combined blotting-pads, rulers and paper-weights ... if Mr Nash has been able to produce this quality of blotting-paper, we do not see why he should stop there. The material might also be utilised as office furniture, carpets and cigars.

50 years ago

Mission To Argentina

Buenos Aires: Britain may take an active part in Argentina's five-year plans. A local report states that a British mission comprising industrial and financial experts will arrive at Buenos Aires at the end of October in order, it is said, to study Argentina's requirements of industrial equipment and essential materials. Britain's slowness in taking this step contrasts with the alacrity wherewith American technicians offered co-operation 12 months ago.

FINANCIAL TIMES
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'Nearly man' tipped in South Korea poll

Veteran in fourth attempt on presidency

By John Burton in Seoul

Frontrunner: Kim Dae-jung

Kim Dae-jung, veteran leader of South Korea's centre-left opposition, is making his fourth attempt on the presidency in 30 years.

The difference this time is the septuagenarian democracy campaigner is the frontrunner.

As his popularity grows, so the ruling New party (NKP) steps up its attacks on Mr Kim. Yesterday the NKP accused him of controlling a secret illegal $73m political slush fund. Mr Kim described the allegations as "nonsense".

Yet until recently, few analysts would have predicted that Mr Kim had a chance of achieving the first peaceful transfer of power since South Korea was founded in 1948.

The latest opinion polls suggest he is consolidating his lead. His 36 per cent backing is his best showing yet and higher than the one-third vote he received in his last presidential bid in 1992. His closest rival in the five-man field has 24 per cent and more than 60 per cent of Koreans now believe he will be elected president on December 18.

The reversal in Mr Kim's fortunes has beeo helped by disarray in the centre-right government camp. "He is winning by default," said Leland Rhee Timblick, an analyst with SBC Warburg Securities in Seoul.

In previous campaigns a united governing party easily trounced a divided opposition. Now the ruling party appears irretrievably split.

Lee Hoi-chang, the government candidate, is competing for votes against Rhee In-je, who left the NKP last month to stand as an independent after finishing second at the NKP nominations.

The crowded field benefits Mr Kim, who can always rely on an intensely loyal base of support in his native south-west Cholla region, which accounts for a third of the electorate.

Mr Kim is an experienced campaigner with a populist touch. His skilful televised performances have overshadowed those of his wooden and aloof opponents. The favourable impression has been aided by a strong campaign, in contrast to the bitter political infighting among the conservative candidates. Mr Kim has also been able to tap growing public disillusionment with the government, which has been mired in corruption scandals.

The NKP's Mr Lee has fallen victim to an angry public after it was alleged that his sons escaped military draft by failing the army medical exam due to deliberate weight loss.

Government efforts to revive suspicions that Mr Kim is a radical with sympathies for communist North Korea have badly backfired among a cynical public.

Mr Kim may now have a chance to remove lingering doubts about his patriotism and clinch the election in the process. Kim Jong-ptl, the most conservative of the presidential candidates, might soon form an alliance with Kim Dae-jung as part of a deal to introduce a parliamentary system to replace a strong executive government in the next administration.

Although Mr Kim Jong-pil's support is only 4 per cent, his endorsement would assure conservative voters of Mr Kim Dae-jung's qualifications to govern – secret police established by Mr Kim Jong-pil twice tried to kill Mr Kim Dae-jung in the 1970s when he was an opponent of the military government.

Many believe backing by the former spy chief could well lift Mr Kim's support to more than 40 per cent, making his campaign unstoppable.

Day of high drama as Prodi battles to hang on

By James Blitz in Rome

Romano Prodi, the Italian prime minister, was last night fighting to save his 17-month-old administration from collapse after the neo-Communist party on which he depends for a majority said it would definitely not support his 1998 budget.

In a day of high drams in the Italian chamber of deputies, Fausto Bertinotti, the leader of Reconstructed Communism (RC), said during a confidence debate that six days of negotiations with the government had failed to produce an agreement.

"We will vote against this budget," said Mr Bertinotti, whose party represents the hard-left group created after the Italian Communist party broke up in the early 1990s.

As the debate progressed into the evening, depoties were waiting to see whether parliament would be forced into a vote of no confidence in the Prodi administration. Such a vote could trigger elections later this year.

However, some Italian commentators speculated that Oscar Luigi Scalfaro, the Italian president, who has ultimate power over the creation or dissolution of governments, could still ask Mr Prodi to try one more time to reach a budget deal with RC.

Mr Bertinotti also appeared to leave open a small window of hope that a deal could be reached, saying that he did not want the government to accept all RC's proposals, "but just one that indicates the government's position has changed".

Financial markets continued to take the view throughout the day that Mr Prodi would ride out the crisis, although their mood was dampened by signs of a tougher position from RC near the end of trading. The main Milan stock exchange index closed 0.17 per cent lower after volatile trading.

Earlier Mr Prodi warned deputies in an impassioned one-hour speech that the government would not turn back from the course it had set to join European economic and monetary union next year.

At the heart of Mr Bertinotti's objections to the budget is the proposal that spending on pensions should be cut to ensure that Italy's application to join Emu is sustainable.

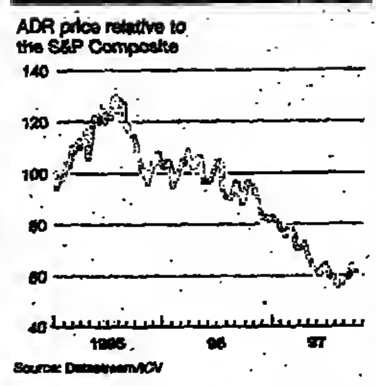
But Mr Prodi said: "We cannot turn back, and we do not have the right to abandon the objectives we have set ourselves. What we do not want is that, as a result of the misunderstandings we have in this place, the country ends up paying a price that is too high and unjustified."

THE LEX COLUMN

Chinese whispers

FTSE Eurotop 300 index
1004.5 (-1.2)

News Corp



Remember the fanfare with which Cable and Wireless announced its China Telecom deal in June? Not only did C&W sell 5.5 per cent of its Hongkong Telecom stake for cash; more importantly, it held out the prospect of swapping an even larger chunk of HKT shares for shares in China Telecom (HK), China Telecom's soon-to-be-floated Hong Kong vehicle. All this to cement a good relationship with Beijing after the handover of the British colony and prepare the way for C&W to get its hands on juicy opportunities inside China.

Well, last month it became apparent that C&W would not be taking a stake in China Telecom (HK) in its flotation. Never mind; the UK group held out the prospect of taking part in a second round. Now, though, it looks like there may not even be a second round. Under a Chinese rule, foreign interests are limited to a collective 25 per cent stake in China Telecom (HK). Following the flotation, they will be humping np against that limit – so there is not obviously room for C&W. Meanwhile, some of HKT's rivals, notably Hutchison Whampoa, are taking stakes in China Telecom (HK).

It is possible C&W will find some other ronte into China. It could even find a way into China Telecom (HK). But everything is far less definite than the impression given in June. What has happened? There are two main explanations: either C&W hyped the original deal or, since then, relations with China have cooled. Neither looks good.

News Corporation

Rnpert Murdoch is fond of describing News Corporation, which held its annual meeting yesterday, as a very small company. In relation to the huge growth opportunities in the worldwide media business he may be right. To everyone else News Corp is one of a handful of media titans, alongside Walt Disney, Time Warner, Viacom and Seagram. Moreover, Mr Murdoch is more of a global thinker. While all the big media groups are scrambling to marry content and distribution, News Corp is doing so across four continents.

So far, investors have had little joy from this strategy. Though most big media stocks have underperformed the US stock market over the past year, News Corp has done worse than all but Viacom. There are good reasons. With so many balls in the air, there are concerns that some may drop. News Corp has suffered some setbacks to its ambitions, particularly in US pay television. Meanwhile, heavy investment in everything from Latin American satellites to the new Fox News channel will probably hold earnings per share flat this year.

By early next century, that could change. Most of the strategic assets are in place and once News Corp turns from building to harvesting it could produce juicy returns. The trouble is that by then the question of management succession, which already dogs the stock, will come into even sharper relief. Though investors seem happy with Rupert Murdoch running tha family-controlled group, many worry whether the next generation of Murdochs is up to the task.

UK utilities

Is there a further £15bn ($24.80bn) in cash to come out of undergeared UK utilities? SBC Warburg Dillon Read reckons so, and the investment bank is on to a solid point. The heart of the argument is that debt is cheaper than equity, simply because interest payments can be offset against tax. Borrowing to buy back shares, in short, is one of the few ways in which a utility's management can add real value – courtesy of the taxman. Moreover, the mooted abolition of advance corporation tax should remove a residual obstacle to such shareholder-friendly operations.

The scope for financial engineering in this way is not, of course, limitless. There comes a point when an optimum capital structure has been reached – because the increased riskiness of the shareholders' earnings stream and higher interest costs from loading ever riskier debt on to a balance sheet would offset the tax benefit. But this is still a long way off. According to SBC's calculations, the optimum debt level for the average utility would be reached at about 50 per cent of enterprise value. At present, the figure is just 23 per cent. Moving from one to the other would cut utilities' cost of capital by around 0.7 per cent – increasing the companies' theoretical values by 10 per cent.

Yet the mere thought of theoretically optimum debt levels tends to give utility managers the heebyjeebies. Partly this is just innate cantion. Partly it reflects a lingering fondness for meaningless measures of balance sheet gearing. And partly it reflects an enthusiasm to "keep powder dry" to finance future diversification. But none of these instincts deserves much patience from investors.

What, thongh, of regulators? Should they not be nervous about utilities pushing borrowings to such aggressive levels? Well, no. For a start, borrowings on the scale suggested by SBC would still give companies a credit rating on the border between single-A and triple-B – comfortably investment-grade. And even if an incompetent utility messed up and ultimately went bust, there is no real reason for regulators to fret. The lights would not go out. Investors should beware, however, of leaping to the conclusion that big cash outflows to come necessarily mean utility stocks are cheap. On the contrary, the shares are mostly already trading in line with, or above, the companies' regulatory asset bases. This is only justified if the companies can also get their cost of capital down to what regulators assume.

Yet on SBC's numbers, even adopting an ideal capital structure would achieve only a 9 per cent post-tax, nominal cost of capital – still a little higher than regulators habitually assume. Part of the reason, as utility managements frequently moan, is splendidly ironic: that regulators probably underestimate the effect of regulatory risk on the cost of capital. But ntilities themselves are also at fault. It is not just that their balance sheets are still not efficient; their enthusiasm for high-risk diversification is also to blame.

Additional Lex comment on Arjo Wiggins, Page 22

European carriers in protest over US aircraft service plan

By Michael Skapinker, Aerospace Correspondent

European airlines have asked Brussels to protest against proposed US legislation which would limit the number of foreign companies allowed to service US aircraft.

The bill, the Aircraft Repair Station Safety Act, proposes that the Federal Aviation Administration be empowered to grant certification to foreign repair stations only if aircraft need to be serviced there as part of their international travel.

This would mean that repair companies at busy international airports, such as London's Heathrow and Frankfurt, could be certified because they are dealing with aircraft which need to be serviced so that they can fly back to the US.

However, certification might not be granted, for example, at Shannon airport in Ireland, which has a busy aircraft servicing business even though it is not an important international destination.

The Association of European Airlines has written to Neil Kinnock, the EU transport commissioner, saying the proposed legislation aims to preserve American jobs rather than improve aircraft safety.

Legislators in Washington say the law is necessary to ensure the safety of US air passengers. Senator Arlen Specter said: "This legislation would change current regulations so that US aircraft are repaired to the maximum extent possible by professional US mechanics, properly trained and supervised, using certified parts."

He said the legislation would help US aircraft to avoid being fitted with uncertified or "bogus" parts.

Mr Specter said the legislation was designed to close a loophole created by FAA rules promulgated in 1988. He said: "The 1988 rules have resulted in a situation where FAA certification – the highest seal of approval in the world – is much too easy to obtain.

"Prior to those changes, a foreign repair facility had to demonstrate that there was a need to service aircraft engaged in international travel before they could get certified. But now a station can receive FAA certification for the simple goal of attracting US business." He said these foreign stations were "stealing US jobs and could potentially jeopardise aviation safety".

The European association told Mr Kinnock its members were "highly irritated by these statements which imply, inter alia, that European aircraft mechanics are neither professional nor properly trained". The association added: "The hidden agenda clearly comprises job protection and economic protectionism."

The Commission said it was studying the association's letter. The FAA declined to comment on the legislation but said it would make its position known when it gives evidence to a public hearing on the bill, due to take place in Washington tomorrow.

A political dwarf, Page 14

FT WEATHER GUIDE

Europe today

Southern Scandinavia and the Baltic states will start cloudy and wet, but the region will become showery with occasional sunny spells from the south-west. Northern Scandinavia will be cold, but it will be dry with some sunny periods.

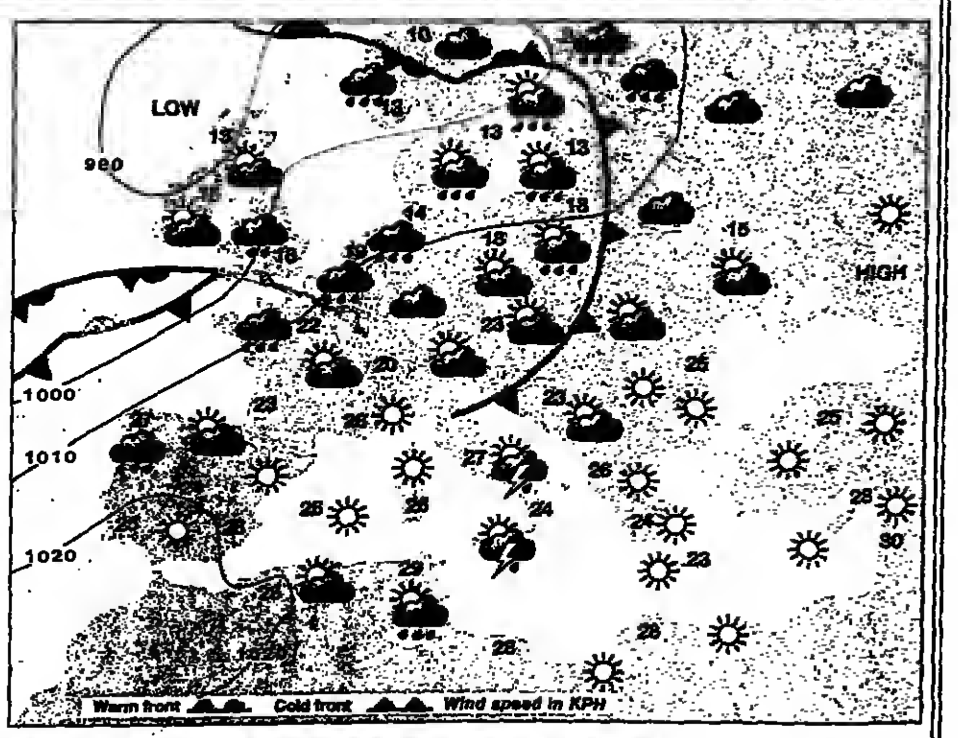
Northern France, southern England, Wales and the Low Countries will be cloudy, with rain moving in from the west. The rain will be heavy for a tima and there will also be strong to gale force winds.

The Mediterranean will generally be very warm and sunny, but southern Italy and Tunisia will have some thundery rain. The rest of Europe will be dry with spells of sunshine.

Five-day forecast

A series of rapidly moving systems will sweep eastwards across much of western, central and eastern Europe over the next few days, bringing periods of rain and blustery winds, with brief dry spells.

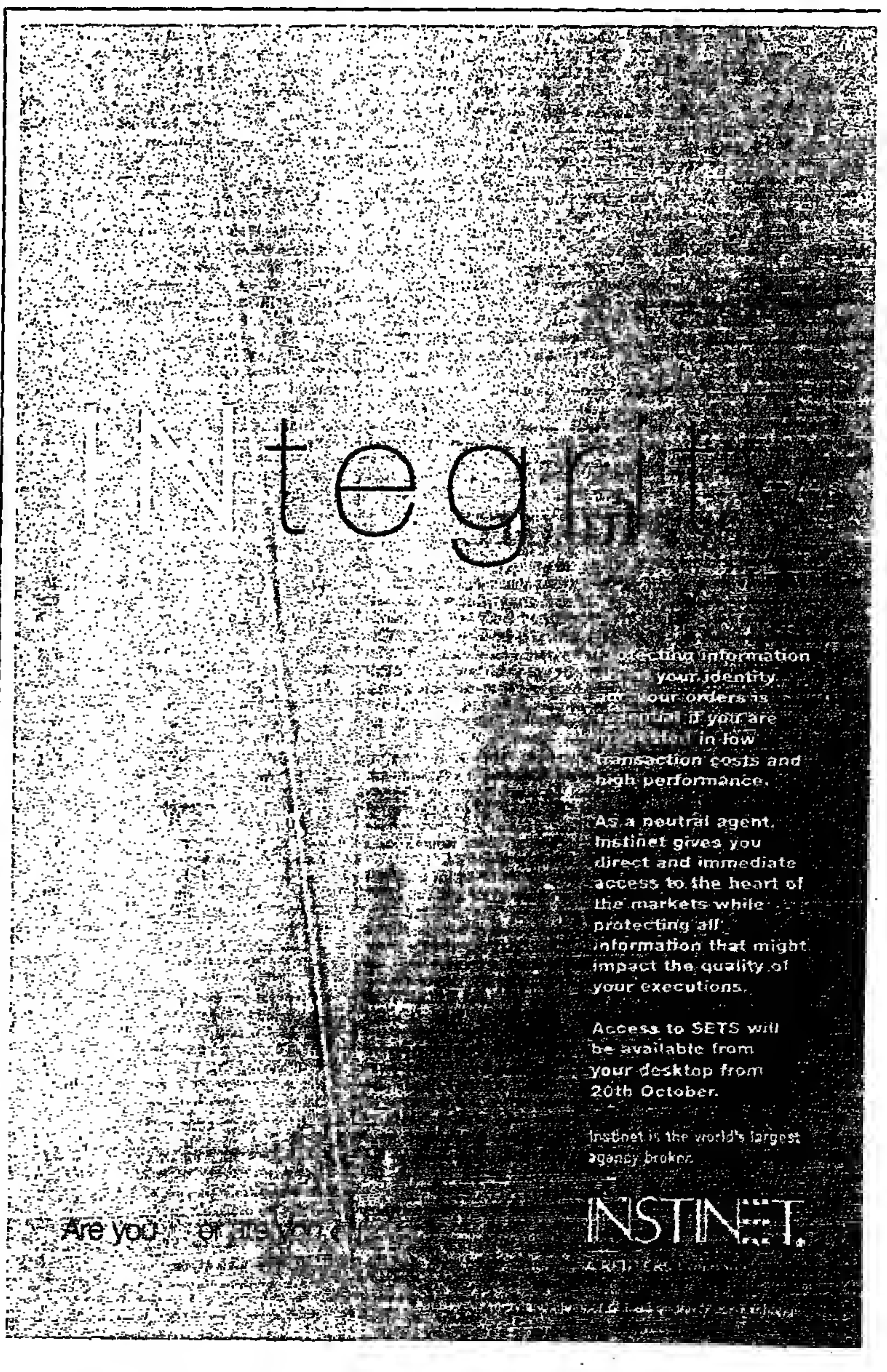
Northern Scandinavia and the Mediterranean will remain largely settled and dry.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

	Maximum/	Beijing	sun 21	Cardiff	thunder 16	Frankfurt	rain 22	Madrid	sun 24	Rangoon	thunder 32
	Celcius/	Belfast	fair 15	Casablanca	fair 25	Geneva	fair 20	Majorca	sun 26	Reykjavik	rain 8
Abu Dhabi	sun 36	Belgrade	fair 24	Chicago	fair 23	Gibraltar	fair 24	Malta	cloudy 27	Rio	sun 29
Accra	fair 31	Berlin	fair 18	Cologne	rain 21	Glasgow	shower 15	Manchester	shower 15	Rome	cloudy 27
Algiers	fair 28	Bermuda	fair 27	Dakar	fair 32	Hamburg	rain 16	Manila	thunder 32	S. Frsco	fair 19
Amsterdam	rain 19	Bogota	thunder 21	Dallas	fair 28	Helsinki	rain 8	Melbourne	sun 21	Seoul	sun 19
Athens	thunder 24	Bombay	fair 33	Delhi	fair 28	Hong Kong	shower 30	Mexico City	thunder 25	Singapore	thunder 31
Atlanta	fair 30	Brussels	cloudy 19	Dubai	sun 40	Honolulu	fair 31	Miami	sun 32	Stockholm	rain 13
B. Aires	sun 21	Budapest	fair 23	Dublin	cloudy 16	Istanbul	sun 23	Milan	shower 22	Strasbourg	rain 19
B.ham	rain 17	C.hagen	rain 14	Dubrovnik	shower 22	Jakarta	thunder 33	Montreal	fair 18	Sydney	fair 22
Bangkok	thunder 33	Cairo	sun 27	Edinburgh	fair 14	Jersey	shower 21	Moscow	cloudy 6	Tangier	fair 25
Barcelona	sun 24	Caracas	sun 31	Faro	fair 24	Johannesburg	fair 23	Munich	cloudy 23	Tel Aviv	sun 30
						Karachi	sun 36	Nairobi	thunder 27	Tokyo	fair 22
						Kuwait	fair 34	Naples	shower 25	Toronto	fair 22
						L. Angeles	sun 23	Nassau	fair 32	Vancouver	rain 13
						Las Palmas	sun 27	New York	fair 23	Venice	cloudy 20
						Lima	sun 22	Nice	sun 25	Vienna	fair 22
						Lisbon	fair 25	Nicosia	sun 28	Warsaw	cloudy 19
						London	rain 18	Oslo	rain 13	Washington	sun 25
						Lux.bourg	cloudy 18	Paris	shower 18	Wellington	fair 13
						Lyon	thunder 25	Perth	shower 22	Winnipeg	shower 21
						Madeira	thunder 25	Prague	fair 21	Zurich	fair 21



FINANCIAL TIMES

COMPANIES & MARKETS

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INSIDE

Russian market the top performer

Several bull markets have thundered around the world this year but none has matched Russia. For the second year running, Russia is likely to emerge as the world's best performing stock market. It has surged 185 per cent this year to add to the 140 per cent gain in 1996. Page 36

Industry bullish on farm machinery

Robert Ratliff (left), chairman and chief executive of Agco, the US company which is one of the world's big five tractor makers, is confident about the prospects for his industry. "We're not projecting any decline in demand for the next three years," Mr Ratliff says. "The industry is looking pretty strong." Similar sentiments are voiced by others in the world's $43bn-a-year farm machinery industry. Page 19

Nikko looks to international partners

Nikko Securities has become the latest Japanese broker to reshuffle its management after becoming involved in the country'a *sokaiya* scandals. Now, says Masashi Kaneko, Nikko's new president, the group is planning to "open the door" to international partners. Page 18

Finland plans Postipankki merger

The Finnish government joined the consolidation wave sweeping the Nordic financial services industry by announcing plans to merge Postipankki, the country's third-largest bank, with Finnish Export Credit, the state-controlled commercial lender. Page 20

Companies in this issue

Market Statistics http://www.FT.com

CROSSWORD, Page 26

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Linotype Hell	172	+	9
Moenus Textil	17.5	+	3.0
Sax Systeme	119.0	+	9.5
Zanders Feinp	145	+	10
Falls			
Deutsche Bbck	101.5	–	8.4
KSB KL Schanz	490	–	35
NEW YORK ($)			
Rises			
Amphenol A	50	+	3¼
Halliburton	58¾	+	2¼
Newbridge Ntwk	68½	+	4½
Pepsico	38¼	+	2¼
Falls			
Dewry	29¾	–	2¼
Readers Digest	28	–	3¼
LONDON (Pence)			
Rises			
African Lakes	58½	+	8
Gresham House	22	+	7½
IES Group	75½	+	5
Polydoc	157½	+	15
Falls			
Advance Power	70½	–	7
Tunstall	100	–	10
TORONTO (C$)			
Rises			
Arbor Mem S	28.25	+	2.20
Ballard Power	59.50	+	4.35
Magellan Aero	10.55	+	1.55
Tesco	28.1	+	1.9
Falls			
Hallmark Tech	15.35	–	1.00
Mainframe Ent	12.40	–	0.75

PARIS (FFr)			
Rises			
Arjomari-Prx	1600	+	100
Infonie	69	+	7
Locamur-Sofig	280	+	23
Union Crd Bat	15.7	+	2.7
Falls			
Aussedat-Rey	261	–	29
Gan	125.0	–	11.3
TOKYO (Yen)			
Rises			
Japan Steel	143	+	32
Falls			
Chichibu Onoda	287	–	23
Chiyoda Corp	230	–	21
Daicel Chem	302	–	28
Daikyo Inc	182	–	22
Toyo Seikan	1990	–	180
HONG KONG (HK$)			
Rises			
Kowloon Mtr	21.2	+	1.3
Varitronix	15.2	+	0.8
Falls			
Beijing Ents	44.9	–	1.1
Cosco Pacific	12.1	–	0.9
HK & S Hotels	9.00	–	0.25
Hysan Dev	22.25	–	0.85
BANGKOK (Baht)			
Rises			
Fancy Wood	22.5	+	2.0
Thai Stanley	34	+	3
Falls			
Castle Peak	81.0	–	8.5
Nation Multime	29	–	3
Siam Com Bk	97.5	–	10.5
Thai Military	21.25	–	2.25

New York and Toronto prices at 12:30.

Frontline opposes ICB plans

Rival seeks injunction against Astro merger

By Tim Burt in Stockholm

Frontline, the Bermuda-based tanker operator bidding SKr3.22bn ($2.22bn) for its Swedish rival, ICB Shipping, is taking legal action to prevent ICB pursuing a friendly $309m merger with Greek-owned Astro Tankers.

John Fredriksen, the Norwegian shipping entrepreneur who heads Frontline, yesterday appointed lawyers in Stockholm to seek an injunction against the proposed deal.

Mr Fredriksen, who last year acquired Frontline for $455m, said the company had been advised it bad a strong case under Swedisb company law to block ICB's plans to issue 11.85m shares to the Angelicoussis shipping family, which owns Astro.

Lawyers acting for Frontline are expected to argue that the ICB board has acted against the interest of its shareholders – of which Frontline is the largest with 51.7 per cent of the share capital – by seeking a merger with Astro.

In doing so, they will cite a clause in Swedish company law that precludes a company from signing a deal that "gives unreasonable advantage" to one set of shareholders.

ICB said it had been advised that the proposed Astro deal did not breach company law.

The move is the latest stage of an increasingly bitter takeover battle, where both sides have asked the Stockholm stock exchange to investigate dealings by the other.

Frontline, which has also acquired 31.4 per cent of ICB voting rigbts, was dismayed when ICB announced this week that shareholders with 52 per cent of the votes would support the Astro merger.

Mr Fredriksen yesterday said ICB had only won majority support for the merger after the intervention of John Angelicoussis – chairman of Angelicoussis Gronp, Astro's parent company. According to Frontline, Mr Angelicoussis acquired 474,000 ICB voting A shares at SKr160 a share – compared with a market price yesterday of SKr125.

An ICB spokesman confirmed that Mr Angelicoussis had "topped" Frontline's own offer of SKr130-a-share for the A shares, but declined to comment further.

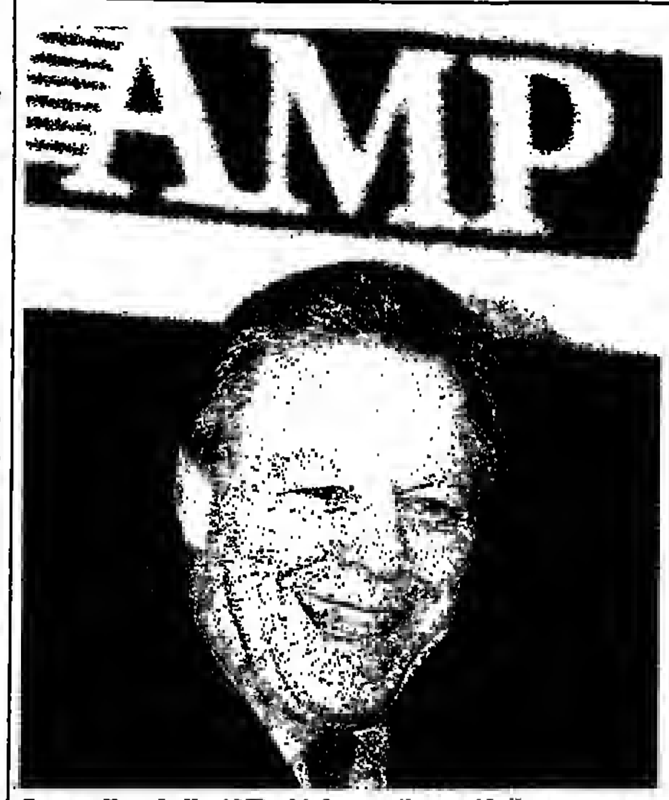
Frontline, which has offered SKr115 a share in cash for ICB's most traded B shares, said it was still considering whether to make an increased offer for the company.

It is expected to reach a decision following the publication this Friday of ICB's offer document for Astro, which will include a detailed valuation of the Astro fleet.

The takeover battle follows a wave of mergers in the tanker industry. Large shipping operators believe greater size will let them exploit the cyclical upturn in chartering rates.

Qualifying members to receive $4,300 windfall if plans to demutualise are approved

Australian Mutual on course for $8bn IPO



George Trumbull, AMP chief executive, said the group was keen to make acquisitions, particularly in the UK and US Reuters

By Christopher Brown-Humes in London

Australian Mntual Provident, Australia's biggest life insurer, yesterday started the countdown to its initial public offering next summer, saying it could be valued at more than A$11bn ($8bn).

As it began sending ont details of its demutualisation plans in an "explanatory memorandum", it said its 1.8m policybolders would receive about 1.07bn free shares,

Credit Suisse First Boston, adviser to the issue, estimated the shares were worth between A$8.81 and A$10.37 on September 10, valuing the group at between A$9.4bn and A$11.1bn.

At A$10 per share, qualifying members would get an average windfall worth A$5,944 (US$4,300) with everyone guaranteed at least 100 shares. A member witb a 20-year endowment policy maturing this year would receive 1,269 sbares, worth A$12,690; someone with a 30-year wbole of life policy would receive 1,845 shares worth A$18,450.

In tbe UK, abont 171,000 policybolders witb London Life, an AMP subsidiary, and AMP UK will receive free shares. Policybolders with Pearl Assurance, also owned by AMP, will not qnalify because they belong to a sharebolder-owned company rather than a mutual.

AMP members bave until November 18 to vote, ahead of a general meeting in Sydney on November 20. The move must be approved by 75 per cent of the votes cast.

George Trumbull, AMP chief executive, said tbe group remained keen to make acquisitions, particularly in the UK and US, although he indicated current prices were expensive. AMP was one of the unsuccessful bidders for Scottish Amicable earlier this year, losing out to Prudential Corp.

AMP plans to list on the Australian and New Zealand stock exchanges next summer. It would rank as Australia's 10th-largest Australian company by market value, accounting for 46 per cent of tbe insurance sector. Tbe group predicted its 1997 net profit would "at least equal" last year's A$2.1bn.

To qualify, members must have beld policies on December 11 1996, the date the board decided to recommend demntualisation, and on September 10 1997, when the explanatory memorandum was approved.

News Corp Indian TV channel to go public

By John Gapper, Media Editor

News Corporation, the global media group, is to make an initial public offering on the New York Stock Exchange next year of an Indian television channel in which it bolds a 50 per cent stake.

The plan was announced yesterday by Rupert Murdoch, chairman, at News Corp's annual general meeting in Adelaide. He said Zee Television, a 24-hour Hindi entertainment channel, was already "very profitable". News Corp has a 50 per cent stake in Asia Today, Zee TV's parent.

Zee TV is not connected with ISkyB, a satellite television venture News Corp is trying to launch in India.

Mr Murdoch, who called the past year "difficult" for News Corp, said he thought bostility in China towards Star TV, the satellite venture, was easing.

He said News Corp's Japanese satellite television servica, whicb it owns jointly with tbree companies, including Sony Corporation, faced "great difficulties", but the company did not "see a great cash commitment being required".

Mr Murdoch said BSkyB, the satellite television company in which it holds a 40 per cent stake, might have "a flattish year for one or two yaars" because of moving to digital services, but had "a brilliant future".

News Corp intends to broadcast Fox News, a 24-hour news service launched to rival Cable News Network in the US, across Latin America, Japan and Europe networks, and will distribute Sky News internationally. He said setting up Sky News had been "a tremendous task, not only to get its standards very high bnt to get its costs under control". After seven years, Sky News is now in profit.

HarperCollins, News Corp's US book publishing arm, was likely to be "moderately profitable" during the current year with revenues of well over $700m. News Corp took a $270m restructuring charge at HarperCollins for 1997.

Mr Murdoch also called on newspaper publishers to resist calls for privacy legislation in tbe wake of the death of Diana, Princess of Wales.

First quarter results for newspaper operations of News Corp were up 30 per cent in Australia and 20 per cent in the UK.

Lex, Page 16

Dresdner dogged by fresh board upheavals

By Graham Bowley in Frankfurt

Dresdner Bank, Germany's second biggest, was yesterday beset by fresh management upheavals after a board member resigned and its chairman unexpectedly announced he would not be joining the supervisory board.

Dresdner Bank, which has been plunged into uncertainty hy ongoing tax evasion investigations, announced that Hans-Günther Adenauer, who had been a member of the bank's board for 11 years, had decided to step down from the board and would probably leave the bank.

Separately, it revealed that Jürgen Sarrazin, who is dne to retire as chairman of the exectntive board in May, would no longer put himself up for election to the bank's supervisory board, as bad been announced.

Dresdner Bank was last month rocked after Wolfgang Röller, the head of its nonexecutive board and one of Germany's best-known bankers, resigned over allegations that he had sought to evade taxes by sending funds to Switzerland.

Mr Röller, formerly a management board chairman of the bank, rejected the claims, insisting that tha investigation being carried out by state prosecutors would show they were not true.

Mr Röller said be stepped down to spare Dresdner any further damage, but his resignation has failed to stem speculation about further investigations at the bank.

Mr Sarrazin, wbose announcement will surprise the banking community, is due to be succeeded as management hoard chairman in May hy Bernhard Walter, 55, a fellow director.

Dresdner has been under investigation by state prosecutors since 1994 over allegations that it advised clients to send funds to Luxembourg and other foreign centres to evade tax. Germans must declare income from accounts beld abroad.

Dresdner refused to link the tax investigations and tbe developments involving Mr Sarrazin and Mr Adenauer – a distant relation of Konrad Adenauer, the former German chancellor. A Dresdner statement shed no ligbt on Mr Adenaner's departure, noting only that the bank owed him "special thanks".

Barry Riley

European funds drift back to the US

Is late better than never? We may soon find ont. There are clear signs that foreign investors are being drawn back into tbe US stock market after yaars of standing on the sidelines while Wall Street soared.

The US Treasury has reported that foreign net buying of US equities suddenly soared in the second quarter, bitting an annual rate of $90bn. Whether that is a reasonable extrapolation of a sustainable rate over several quarters remains to be seen, because US stocks offered unusual value in April before a remarkable 30 per cent price surge. All the same, net buying of equities seems certain to beat the previous annual record of $22bn in 1993.

But Britisb pension funds, one of the biggest groups of international equity investors, were still selling US stocks in April-June, to the extent of more than $1bn, according to the WM Company's database. Continental European institutions appear to have been more enthusiastic.

Why have the foreigners got Wall Street so badly wrong during the 1990s? According to Mike Wolf, the senior institutional portfolio manager at American Express Asset Management in Minneapolis, you have to sense the impact of the Friday 401(k) paycheck deductions pouring into stocks on Mondays to understand the source of the power of this bull market. Even in August, a relatively bad month for mutual fund sales (and for share prices), net inflows to equity funds were running at almost $15bn, down from a peak of $26bn in July.

Instead, foreign investors have tended to look at historical valuation yardsticks, which have proved to be very misleading. They were also burdened at the start of the decade by historical prejudices traceable to the poor relative performance of Wall Street since the early 1970s.

The collapse of confidence in Japan and the reinvention of corporate America were phenomena that were scarcely understood. Too often tbe Tokyo market was jndged cbeap hy its own unrealistic standards while Wall Street was regarded as dear, although objectively it offered much better value.

> In the 1990s, Europe-based global strategists decided that the future was in the east

Early in the 1990s, Europe-based global strategists looked at history and decided that the future was in the east. But now the east has more or less crumbled: first Japan and more recently the Tiger economies, with the exception of China.

Albert Edwards, Dresdner Klainwort Benson's global strategist, wbo last year attacked the "Noddynomics" of Malaysia, is warning that the Hong Kong market may be the next to go wrong. But he is negative on the US too.

The problems of the Far East have sharpened the asset allocation challange. Can global funds be seriously short of *both* the US and the Far East when together these regions account for 67 per cent of the World Index? One answer came yesterday from Scottish Equitable; tha Edinburgh life company is shifting $200m in equities from Japan to the US, conquering its fears about high valuations.

For US-based managers such as Mike Wolf a business opportunity is opening np in Europe. For years, be says, European clients were scared by the weakness of the dollar and the US budget deficit, but such excuses are now irrelevant. American managers are picking up specialist US equity accounts in continental Europe as well as the UK. Their simple sales spiel is that only Americans understand the American stock market.

I have often commented bere on the extreme bearishness of UK pension funds about the US. The latest WM figures (for end-June) show an exposure of only 3.5 per cent of their portfolios to US equities, which amounts to a collective underexposure to the extent of some $65bn compared with a "neutral" or indexed position in their foreign equity portfolios.

Frustrated London managers have not seen the Wall Street crash which would havs justified their prolonged stand-off. Many of them may not be able to wait much longer.

Securities losses hit Japanese banks

By Paul Abrahams in Tokyo

Jepanese banks and trading houses have announced e flurry of profits warnings after being hit by unexpected losses on their stock market investments.

Daiwa Bank and Marubeni, the trading house, yesterday slashed their half-year profits forecasts after booking losses on their securities portfolios of Y118.8bn ($976m) and Y17.5bn, respectively. The move follows a similar warning last week by Dai-Ichi Kangyo Bank, which booked losses of Y230bn.

"These losses have caught everyone on the bop. But given what we now know, we should expect the majority of the big banks to announce sharp downward revisions in their first-half profits forecasts," said Brian Waterhouse, banking analyst at HSBC James Capel in Tokyo.

Japanese banks had been expected to post poor first-half results as they ettempted to resolve their bad debt problems by making substantial provisions.

However, Mr Waterhouse said he still expected the results to be poor, but that would now probably be because of losses on securities portfolios. These might delay the ability of the banks to clear their bad debts efficiently.

The banks' and trading houses' losses on securities boldings are a surprise because, during the first half of the financial-year ending September 30, the Nikkei 225 everage fell only 0.64 per cent and the Topix index of all first section stocks actually rose 1.1 per cent.

But within these averages, there were large differences in performance between ths so-called "nifty-fifty" export-led stocks, which outperformed, and more domestically-oriented shares. The latter, in which the banks and many trading houses are heavily invested, underperformed badly over the period following the collapse of the Japanese economy in tbe second quarter.

Companies are obliged to value their stock-market holdings at the lower of either cost or market value, and at the close of the six months they bave been forced to realise the losses. Althougb many also own shares in better performing stocks, they would need to sell their investments to realise their gains.

Daiwa blamed sharp falls in some Japanese stocks for its losses. The Osaka-based bank forecast its net half-year profits would be only Y5bn, compared with e previous estimate of Y10bn. However, revenues would be Y380bn, compared with its earlier forecast of Y330bn. The announcement was made after the market closed, and Daiwa's shares finished up Y3 at Y538.

US sales chief resignation shakes Nissan

By Michiyo Nakamoto in Tokyo

Nissan, the Japanese car maker, faces a period of uncertainty in its US operations after the departure late last week of Robert Thomas, head of US sales.

The sudden resignation of Mr Thomas, president and chief executive of Nissan's sales company in tbe US, comes amid a downturn in Nissan's sales in that market in recent months, including e sharp 33 per cent fall in September sales.

Nissan said the departure of Mr Thomas was not linked to its recent weak performance in the US, but the carmaker has faced e difficult period at a time when many of its Japanese competitors ere increasing US market share.

Mr Thomas had presided over US sales operations since 1993, a period in which Nissan strongly increased sales. He will not be replaced immediately, but his responsibilities will be assumed by Minoru Nakamura, head of Nissan North America, the US parent company.

Nissan attributed its decline in September sales to a disappointing performance by the Altime, its basic model, which was remodelled and launched in the US recently.

Contrary to expectations, the Altima sold only 9,500 units in September, against a company forecast of more than 10,000 units.

Nissan has not offered mnch in the way of incentives for the Altima, which was aggressively priced. The company said it was reconsidering this policy.

However, Nissan's performance has been marked by "weakness across the board", according to Ed Brogan, industry analyst at Salomon Brothers in Tokyo. Sales have been down not only for the Altima but for other models as well, including its sports ntility vehicle and minivan.

Part of Nissan's problem in the US was its exposure to the passenger car segment of the market, which has been shrinking, and its lack of participation in some of the hottest areas of the market, such as smaller sports utility vehicles, Mr Brogan noted.

Due to its lack of strong prodnct, Nissan has had to spend much more than its competitors on sales promotion, Mr Brogan said, adding that Nissan was in danger of becoming a second-tier company among Jepanese vehicle makers in the US.

Nikko opens its doors

International partners are central to 'big bang' strategy

Masashi Kaneko, the new president of Nikko Securities, cups his hands to form a square.

"Imagine this is Nikko – the company is like a house," he explains in rapid English, barely pausing to draw breath. "Nikko might be at the top, like e roof, but what we want to do now is open the window – no, better, say, the door – to international partners."

He throws open his hands. "Perhaps we are a little different from other Jepanese banks and brokers in that way."

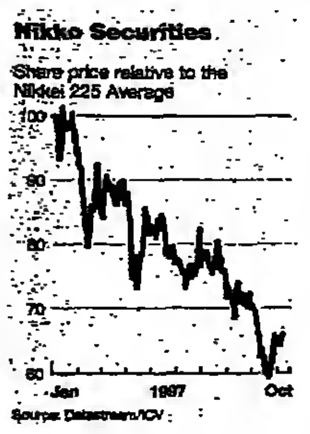
He might be right. Nikko has become the latest Japanese broker to reshuffle its senior management after becoming sucked into the country's *sokaiya* scandals. As a result, e striking line of thinking eppears to emerging.

If Mr Kaneko is to be believed, the company is intent on turning itself into one of the more internationally-oriented of Jepan's brokers.

The shift may partly be presentational. Mr Kansko, 58, has extensive overseas experience: he was chairman of Nikko's European operations, has worked in New York and studied at Columbia University.

He speaks with a flair and clarity that is unusual in traditional Japanese circles – and highly attractive to any non-Japanese listener.

But the changes may be more than linguistic. For though most Japanese brokers include globalisation as an ambition, Nikko appears to be turning some of its rhetoric into action.



The company is making London, not Tokyo, the centre of its international operations and is giving non-Japanese staff more responsibility.

"We have come to the conclusion that with globalisation we cannot manage our operations just by Japanese people – we want to learn from international investment bankers," he says.

This pertly reflects Nikko's recognition of its own vulnerability.

Witb total assets of Y8,850bn ($72.7bn), it cannot seriously aspire to become a top global investment bank. Within Japan, it lacks the business muscle of the giant Nomura and its traditional broking business is already facing e business squeeze which "big bang" liberalisation is likely to exacerbate.

Masashi Kaneko, Nikko president: turning words into action

"Our equity broking business will be substantially reduced in tbe coming years," edmits Mr Kaneko, and he edds that tbe company may "have to get out of plain vanilla broking business".

But his solution is two-fold. Nikko must refocus on asset management and investment advice, rather than plain broking. It must also boost its international skills so that it can offer new products back in Japan through its large network of retail outlets and corporate clients.

"Big bang means that Japanese investors are looking to diversify their portfolios more into international markets, so we have to strengthen our capability in that area," he says.

In some areas, such as eurobonds and Asian equities, the company has the skills it needs, he says. "But in the new product areas that will grow out of big bang we cannot do this alone – we don't have the skills."

Mr Kaneko bopes to acquire these skills is by promoting non-Japanese into positions of influence. Indeed, its offices in Europe, the US, Australia, Caneda and Mexico are all now headed by non-Japanese.

But Mr Kaneko also wants to strengthen partnerships witb non-Jepanese companies.

Nikko has already gone further than most Japanese brokers in this direction. It has a successful pension fund joint venture with Barclays, of the UK, and recently concluded a joint venture with Smith Barney, of the US, to develop products in Japan.

Whether these aspirations will be enough to turn Nikko into a real big bang winner remains uncertain. But they highlight the scale of reflection thet big bang is provoking in Japanese financial circles.

Gillian Tett

ASIA-PACIFIC NEWS DIGEST

Indofood issues profits warning

PT Indofood Sukses Makmur, Indonesia's largest listed food concern, should report at least 13 per cent less net profit this year compared with last year's Rp351bn ($96.4m) due to the rupiah's sharp depreciation against the US dollar, the company said yesterday. It added revenue growth was also expected to be below expectations.

The world's largest instant noodle producer must import most of its ingredients, while exports remain at a negligible 3 per cent of total sales. The official news agency Antara quoted Eva Riyanti Hutapea, a senior Indofood executive, as saying the company also had an outstanding offshore debt of $1bn, which will mature next year. However, she did not say whether the debt was hedged.

"The rupiah's depreciation will hit hard our company this year as operating costs and costs of goods sold will increase sharply along with the increases in prices of raw materials and the debt burden,' she was quoted as saying. Earlier this year, Indofood targeted net profit growth at around 45 per cent this year to above Rp500bn. Its net profit rose 15 per cent to Rp351bn rupiah in 1996 from Rp305bn the year before. *AP-DJ, Jakarta*

■ CURRENCY SWAPS

NCB, Bankers Trust offer service

Nippon Credit Bank and Bankers Trust New York have begun a currency swap service for Japanese companies operating in south-east Asian countries with volatile currencies, the Jepanese bank said yesterday. Under the service, Japanese companies' local-currency denominated credits to local vendors are swapped for US dollars, enabling the companies to repay US-dollar denominated loans received from e bank for local operations without exchange rate risk.

Contracts for the new service can run up to seven years, compared with one to three years for conventional currency swap contracts, NCB said. The fee for the new service will be less than 0.1 per cent of the principal of a loan. Until recently, Japanese companies operating in Sonth-East Asian countries had been able to borrow US dollars et low interest rates without worrying about currency risks. But because of the recent sharp devaluations of local currencies, Japanese companies have become worried about the mismatch between dollar-denominated debts and revenues denominated in local currencies. *Reuters, Tokyo*

■ ZHONG HUA LAND

HK property IPO oversubscribed

Zhong Hua Land Holdings, the Hong Kong property developer, said yesterday its initial public offering of shares in Hong Kong was 6.5 times subscribed. The company said it received applications for a total of 879.98m shares, compared with 135m shares available for public subscription. A further 15m shares reserved for employees were fully allotted.

Dealing in the company shares is expected to begin on October 13. Zhong Hua Land, a property developer concentrating on the Chinese market, issued 150m new shares at HK$2.08 each. The company's emphasis is on the cities of Guangzhou, Chongqing, Beijing and Shanghai. It said it would use the proceeds to fund its projects. *Reuters, Hong Kong*

■ FOOD INDUSTRY

Woo Sung files for protection

Woo Sung Foods, of South Korea, has filed for special court protection after defaulting on Won17.3bn ($18.9m) worth of promissory notes. Woo Sung entered into a first default on Monday after failing to meet payments on the notes. When it missed its final deadline for repayment yesterday it was declared in final default. A company official said Woo Sung's financial difficulties began when it lost an exclusive distributor's licence for Coca-Cola in April. The court application, if approved, would allow management to stay in place while rescheduling the debts. *Reuters, Seoul*

Forecasts cut for JR Tokai debut

By Gwen Robinson in Tokyo

The Japanese government's latest privatisation will be pnt to the test today with the stock market debut of Centrel Japan Reilways, known as JR Tokai.

The company is one of six railweys spun off in the 1987 break-up of the government's Japanese Netional Railway group, end the third to be listed.

Brokers bave lowered their expectetions of demand for JR Tokai stock on its first trading day, and are predicting the stock will fetch between Y359,000 and Y400,000 e share.

Tbe company is not as profitable as JR West and JR East, its two listed counterparts, and is likely to trade et lower valnes. The public subscription price of Y359,000 a share is significantly lower than those of its predecessors, botb of which have fared relatively poorly since listing.

Concerns about the Tokyo stock market's dismal performance prompted the government to consider postponing the JR Tokai listing. But officials believe investors are still attracted by the perception that former public enterprises carry government backing and implicit guarantees against bankruptcy.

However, a fall of nearly 1.8 per cent in the Nikkei 225 average yesterday highlighted growing concerns smong Japanese investors that the listing will put further strains on the market's supply-demand balance.

JR West closed yesterday at Y396,000, down Y5,000, and JR East finisbed at Y551,000, down Y17,000.

Thai Military to more than double capital base

By Ted Bardacke in Bangkok

Thai Military Bank, tbe country's sixth largest commercial bank, is more than doubling its capital base, joining the growing list of banks forced by Thailand's economic crisis to raise additional capital.

Chaiyawat Wibulswasdi, central bank governor, said yesterday be expected more commercial banks to announce capital increases in the next few days.

Thai Military, 33 per cent owned by Thailand's armed forces, said yesterday it would issue 687m new shares, increasing registered capital from Bt5.13bn to Bt12bn ($330m).

Current shareholders will be offered 200m of the new shares in a rights issue. The remainder, equivalent to a 40 per cent stake, will be offered to institutional investors in a private placement.

The bank said it was raising equity to improve its capital to risk asset ratio. According to ING Barings, that ratio stood et 8.2 per cent at the end of June, below the central bank's 8.5 per cent requirement.

After the announcement, Thai Military shares fell their maximum 10 per cent limit, to close at Bt21.25. The banking sector overall closed down 4.62 per cent.

Some commercial banks, such as Siam City Bank and Bangkok Metropolitan Bank, have announced significant capital increases and intend to offer big stakes to foreign investors.

In addition to needing extra provisions to cover a rising level of non-performing loans, Thai banks are expected to be hit again next week when long-term measures are announced to restructure Thailand's financial system.

These measures could include an increase in the minimum capital to risk asset ratio to 12 per cent, a cut in the time before loans become non-performing from six months to three, and an increase in provisioning for substandard loans from 15 per cent to 25 per cent.

Analysts immediately questioned whether the country's armed forces, straining under budget cuts, would have the funds to subscribe to the rights issue.

The bank said yesterday that unaudited third-quarter net profits fell from Bt1.2bn to Bt900m, while provisions for bad debt in the first nine months had risen from Bt400m to Bt1.71bn.

Bakrie Finance in rights issue to fund shake-up

By Sander Thoenes in Jakarta

Bakrie Finance, an affiliate of the Indonesian diversified conglomerate Bakrie & Brotbers, is planning a Rp722.25bn ($198.4m) rights issue to finance restructuring of the Bakrie group.

The company is awaiting approval from Bepepam, supervisor of the Jakarta Stock Exchange, for listing 1.44bn new shares, at Rp500 each, in e three-for-one rights issue.

Bakrie Finance will use part of the proceeds to buy 83.3 per cent of Bank Nasional from Nirwan D. Bakrie, a member of the Bakrie family. It will also buy 98.3 per cent of Satria Perkasa Multi Finance from Bakrie Capital Indonesia, which is to become the parent of Bakrie Finance.

The remainder would be used to increase equity capital in subsidiaries and affiliates, including Bank Nusa. Bakrie Securities will underwrite the issue.

Bakrie Finance reported net profits for the first half of Rp1.9bn, against Rp7.1bn in the first six months of last year.

Bumi Modern, e Bakrie property company, announced last month it planned to raise Rp297bn.

Some analysts said the group would find it difficult to sell two issues on the heels of a sharp fall in the Rupiah and stock prices, and a government freeze on numerous infrastructure projects. Bakrie has insisted its foreign debt was 90 per cent hedged.

Bakrie Finance last month said it planned to increase the capital base of Bank Nusa by Rp65bn and Bank Nasional by Rp80bn but denied that either bank had run into liquidity problems due to the fall of the Rupiah and a sharp rise in interest rates.

Tractor makers set sights on further growth

As worldwide demand for agricultural equipment strengthens, the industry leaders are bullish about prospects

Robert Ratliff, the 66-year-old chairman and chief executive of Agco, the US company which is one of the world's big five tractor makers, is full of enthusiasm about prospects for his industry.

Having recently agreed a contract to stay in his job until 2003, Mr Ratliff spends much of his time travelling the world scouting for the $1bn worth of acquisitions he says he is ready to make to add to Agco's recent rapid growth.

"We're not projecting any decline in demand [in agricultural machines] for the next three years," says Mr Ratliff. "The industry is looking pretty strong."

Similar sentiments are voiced by others in the world's $43bn-a-yaar farm machinery industry, of which about half is tractors and the rest other equipment, including combine harvestars and baling systems.

Apart from Agco, tha big five include Deere and Case, of the US; New Holland, of Italy; and Claas, of Germany. Between them they account for about 40 per cent of the farm machine business.

Farm equipment industry

Sales breakdown

	1996 $bn	2006* $bn
North America	[illegible]	[illegible]
W Europe	16.2	14.6
E Europe**	[illegible]	[illegible]
India	2.5	5.0
East Asia, inc China	[illegible]	[illegible]
Central/S America	2.4	4.9
Africa	[illegible]	[illegible]
Australia/New Zealand	1.1	1.1
Total	[illegible]	[illegible]

* projection ** includes Pakistan, Turkey

Source: Industry estimates

Helped by trade liberalisation and the generally benign conditions worldwide for agriculture, the five last year turned in combined net income of some $1.5bn, against a combined loss of nearly $1bn in 1993, wben the industry was among the sufferers from the world economic slowdown.

Since then, the sector has cut surplua capacity, changed work practices and turned in handsome returns for investors.

The stock price of both Agco and Deere has roughly doubled since 1993, measured against the rest of Wall Street, while shares in Case – which was spun off from the Tenneco conglomerate in 1994 – have since risen 70 per cent compared with the rest of the market.

Although the farm equipment industry has in the past been beavily cyclical, few are expecting an imminent downturn even at this stage in the cycle.

"The industry is looking positive for the next 10 years," says Umberto Quadrino, chief executive of New Holland – in which Fiat of Italy bolds the majority stake with the rest being floated on the New York stock market last year.

This bullish view is shared by James McCann, of Merrill Lynch in New York, wbo says the business seems in "good shape", while Charles Harris, of the investment bank Oppenheim, says: "The industry is well positioned to take advantage of e sustained nptrend world-wide."

Of the five big industry leaders, only Deere and Claas existed in their current form at the start of this decade.

Agco started in 1990 and New Holland is the result of the merger in 1991 of the tben-lossmaking tractor businesses of Fiat and Ford, of the US.

The reshaping of mucb of the industry has allowed executives to borrow ideas in "lean manufacturing" from the Japanese car industry, cutting the number of their plants and people and placing more relianca on suppliers to make components on a "just-in-time" basis.

The industry has gone through an "accelerating process of change" says Bernard Hardiek, president of Deere's agricultural equipment division – the largest group in the industry, with sales last year of $6.1bn.

As for Case, it has cut its factory space by half since the early 1990s, with a corresponding drop in employees to about 17,000.

Ploughing on: Agco's Robert Ratliff is seeking acquisitions

Agco spent beavily $1.5bn in the past five years on acquisitions, including the takeover earlier this year of Fendt, of Germany, for $321m – one of the biggest purchases of a German business by a US group.

Mr Ratliff has his sights on doubling the company's $2.1bn annual turnover in the next three to four years, helped by purchases of smaller competitors around the world, particularly in Europe.

Keeping up the programme of change, both New Holland and Case have started five-year schemes – each costing about $600m – to renew completely their product ranges to bring out new tractors with features such as new suspension and drive systems.

While sales of tractors and other agricultural hardware are stable in much of Europe and North America, the outlook for sales to emerging economies in Asia, eastern Europe and Latin America is moch brighter than it was a faw years ago, according to Eckart Kottkamp, chief executive of the privately-owned Claas.

Up to now, most of Claas's DM1.5bn ($851m) a year sales have come from Europe, but it has high hopes of expanding outside this region with the help of a strategic alliance with Caterpillar, of the US, the world's biggest maker of excavators. Caterpillar will use its marketing network to sell Claas machines outside the German company's main sales areas.

Peter Marsh

German purchases by Case

By Nikki Tait in Chicago

Case Corporation, the US maker of agricultural equipment, has announced a series of small acquisitions in Germany, whicb it said would expand its line of harvesting products in Europe.

It is boying the Fortschritt company and the assets of Karl Mengele & Sohne, and MDW Mahdrescherwerke. The first company specialises in hay and forage equipment, while the MDW deal will give Case the rights rights to the German company's new combina.

Case said it would use the Fortschritt facility in Neustadt, near Dresden, as its centre for European harvesting equipment. The US company currently makes low and mid-horsepower range tractors and agricultural sprayers in Europe.

No price was disclosed for the acquisitions, bnt Case said the products being purchased had combined sales of about $110m last year.

The acquisitions would give Case its third manufacturing base in Europe for agricultural machinery, adding to plants in the UK and Austria.

German bank sets rights issue price

By Graham Bowley in Frankfurt

Bayerische Vereinsbank yesterday set a price of DM85 a share for the first stage of its DM3bn ($1.7bn) capital increase to push through the merger that will create Germany's second-biggest bank.

The bank, which is merging with Bayerische Hypotheken-und Wechsel-Bank, said it would offer 19m shares to existing shareholders, at a ratio of one for every 14 held.

The move is tha first step in a planned total issuance of 36m new shares, which is aimed at bolstering the bank's balance sheet for the merger.

A second tranche of shares, worth a nominal DM85m, are to be sold in a global offering. There will also be a green-shoe, or over-subscription option, of a further 3m sbares, representing about DM15m in nominal capital.

Vereinsbank said a price for the second tranche would be fixed at the beginning of November.

The sbares in tha first offering would be entitled to a full 1997 dividend, tha bank said. The subscription period would run from October 17 to October 30, it added.

Vereinsbank's combined rigbts issna and global share offering is larger than originally planned. It comes after a sbare exchange which formed the first step of the merger with Bayerische Hypo.

Software groups in database link-up

By Paul Taylor in San Diego

NCR, the computer and compnter software maker, and SAS Institute, the big private software group, are to integrate their data warehousing and deta mining technologies which are used by companies, such as banks and retailers, to analyse sales and customer information.

The partnership was announced by Lars Nyberg, NCR's chief executive, at the group's annual customers conference in San Diego, where he emphasised NCR's determinetion to become "the undisputed thought leader in data warehousing".

NCR is theleader in the high end of the data warehouse market, but is aiming to extend its penetration of the growing market for data warehouses among smaller and mid-sized companies.

Under the terms of the agreement, the two companies will more tightly integrate their products. NCR will resell SAS products, which are used by companies for data mining – the analysis of database information – and will conduct joint marketing.

NCR said the agreement sbould reduce tha time needed to build data warehouses and enable customers to get business answers from their data more quickly.

Maanwhile, NCR announced two new models to its range of WorldMark computer servars, designed as the new hardware foundation for the group's Teradata data warehousing products.

Kemira urges tightening of import controls

By Roger Taylor in London and Tim Burt in Stockholm

Ksmira, the Finnish chemicals group, yesterday called for greater controls on cheap imports of Russian fertilisers into Europe.

The company, one of Europe's largest fertiliser makers, said European measures introduced last year to set minimum import prices on Russian ammonium nitrate, had become out of date as a result of currency movements. In particular, in the UK, one of the largest users of the fertiliser, the rise of the pound had made the import price, set in Ecus, unrealistically low.

The company also called for better policing of the arrangements. The UK's Fertilisers Manufacturers Association said it had made representations to Brussels and expected action this year.

Esa Tirkonnen, Kemira executive vice-preaident, said the company wanted to expand its pulp and paper and its pigment divisions through acquisitions, but regarded the prices at which such businesses were selling as too high. He added that the company was considering making a bid for ICI's US titanium dioxide businesses, which are up for sale.

The comments came as the company reported a 3.26 per cent rise in pre-tax profits for the first eight months amid steady demand for its pulp and paper, agro-chemicals and colour processing products.

The company saw pre-tax profits rise from FM612m to FM632m ($120m) on sales up from FM9.04bn to FM9.73bn in the period to August 31.

However weaker prices for fertilisers are expected to hit full-year profits in the agrochemicals business. The company said its net income for the 12-month period would slightly lower than FM851m achieved in 1996.

Growth in the chemicals, agro-chemicals and Tikkurila colour processing divisions offset losses of FM65m in the pigments business.

Earnings per share fell from FM3.6 to FM3.4. Kemira's shares rose FM1.1 to FM54.4 in Helsinki.

Finland plans Postipankki merger

By Tim Burt in Stockholm

The Finnish govsrnment yesterday joined the consolidation wave sweeping the Nordic financial services industry by announcing plans to merge Postipankki, the country's third-largest bank, with Finnish Export Credit, ths state-controlled commercial lender.

The new group will overtake Okobank, the group of 298 co-operative hanks, to become Finland's second largest financial services business, after Merita, the market leader.

Indnstry analysts suggested the move could be a precursor to a possihle privatisation of the hanking group.

"In view of the consolidation taking place elsewhere, this looks like a defensive move in many ways and may be the first step towards a disposal hy the government," said one banking analyst in London.

In Helsinki, however, the ministry of finance played down expectations of an early sale, saying the merger would not be completed for several months.

"No actual plans for privatisation exist yet, but this creates the possibility in the future," said a ministry official. "The state clearly sees a hetter value under this model than the old one."

The announcement follows increasing competition in the Finnish banking sector, where Sweden's Svenska Handelsbanken and Skandinaviska Enskilda Banken have estahlished a presence in the past two years – as have Unihank and Den Danske Bank, of Denmark.

Under the terms of the deal, the enlarged group will have a halance sheet of abont FM180bn ($34bn), with deposits of FM57bn and debt securities of FM67bn.

The ministry of finance said a new state-controlled parent company would take over the strategic planning, risk management, group accounting and husiness development of the bank.

It would oversee a two-tier structure, in which the day-to-day operations of Postipankki and Finnish Export Credit would remain separate. Their functions, however, are likely to be heavily restructured.

The ministry said Postipankki's corporate banking operations would he transfsrred to Finnish Export Credit, while it concentrated on retail banking services and small business lending.

In turn, a new investment bank will be formed within the group to handle corporate finance, mergers and acquisitions.

The proposal follows months of talks between the ministries of finance, and trade and indnstry. Together, they will boast a total loan book of more than FM70bn.

Telekom mobile chief resigns

By Ralph Atkins in Bonn

The head of Dentsche Telekom's mobile telephone subsidiary is stepping down, less than a month after the German telecoms group said it was unhappy with the operation's market share.

Lothar Hunsel was officially described as having resigned as chairman of the T-Mobil subsidiary "for personal reasons". Bnt his decision is understood to have reflected disappointment at Deutsche Telekom over the operation's performance.

Althongh T-Mobile has 3.5m customers using its digital and analog services, the German mobile sector has seen fierce competition – particnlarly from the market-leading D2 digital network owned largely hy the Mannesmann industrial conglomerate.

Dentsche Telekom refused to comment on reports yesterday of differences of opinion between managers over marketing strategy.

Ron Sommer, chairman, paid trihute to Mr Hunsel for his "immensely important pioneering and development work".

But the resignation is a further hlow for Mr Sommer, who last month reacted angrily to an unexpectedly tough ruling by regulators on the cbarges Dentsche Telekom can levy on rivals for connections to its fixed-line network.

Signalling a determination to secure significant improvements at T-Mobil, Dentscbe Telekom announced that Gerd Tenzer, a main board member with responsihilities for telecoms networks, would take over as temporary T-Mohil chairman. Josef Brauner, who has responsibility for private clients, will take over sales and marketing actlvities at T-Mohil.

The unit has a domestic turnover of abont DM5.4bn ($3.1hn).

Telefónica shares reverse recent falls

By Tom Burns in Madrid

Shares in Telefónica rallied yesterday after sbarp falls as investors questioned the Spanish telecommunications gronp's international strategy.

Volatility in the group's share price was sparked by WorldCom's hid for MCI last week. Telefònica had chosen Concert, the joint venture between Britisb Telecommunications and MCI, to bolster its Latin American expansion.

Juan Villalonga, Telefònica chairman, is due to meet institutional investors in Boston and Chicago today as part of a week-long series of transatlantic presentations. He is telling investors that he is on "standby" awaiting the outcome of the WorldCom bid.

Mr Villalonga will travel to Los Angeles tomorrow for keynote presentations to Latin American fund managers. He bas already beld meetings in London and New York.

Telefònica said Mr Villalonga would be stressing the group's fundamentals as well as the increasing value of its profitable assets in Latin America.

The underlying message is that Telefònica's ambitions, as the dominant foreign operator in the Spanish-speaking world, could he strengthened hy an agreed takeover of MCI.

Mr Villalonga argnes that the group is poised to consolidate its position in Latin America by participating in the lucrative Brazilian market through a pact with Portugal Telecom.

The volatility in the shares – a heavily traded hlue-chip stock on Madrid's Bolsa – was further fuelled hy multimedia plans recently unveiled by Mr Villalonga, which prompted the hostility of a Spanish media group and a bout of profit-taking among small investors which maks up the bulk of equity-holders.

On Monday, the group's share price fell 2.83 per cent, dragging down the Bolsa's index by 1.81 per cent and bringing the overall fall in Telefònica's share price since last Thursday – when the Madrid market learnt of WorldCom's bid – to 5.72 per cent.

Yesterday, the shares recovered 1.01 per cent to close at Pta4,495, up from Monday's Pta4,450, bnt still well down on an historic high of Pta4,760 on Septemher 24.

Analysts said the share price had also been hit hy small investors taking advantage of new fiscal breaks for equity investments and were switching to huying shares in Endesa, the profitable domestic power group which is being partially privatised.

BT and MCI yesterday reaffirmed their "strategic" commitment to the partnership with Telefònica.

"We expect this partnership to have long-term benefits for both companies, their customers and sharebolders," said Sir Iain Vallance, chairman of BT.

Bert Roberts, chairman of MCI, said: "The strategic relationship with Telefònica is important for MCI. MCI is working successfully with Telefònica in Latin America and regards Telefònica as the best possible partner in that region."

Juan Villalooga is telling investors he is on 'standby' pending the ontcome of WorldCom's bid for MCI Ashley Ashwood

France Telecom oversubscribed

By Vincent Boland

Investors wbo applied for shares in France Telecom, which is being partly privatised, are expected to have their orders diluted after heavy subscription by institutions.

Paribas and BNP, joint global co-ordinators for the flotation, closed the book-building process for institutional investors early yesterday. By then an estimated FFr400hn ($67.5bn) of orders for shares had flooded in – about 17 times the size of the entire institutional offering.

"We have a nicely oversubscribed deal and we will be very selective in allocation," said a senior syndicate official. "Allocations [of shares] are going to be very tight."

Allocations will be made on October 17, ahead of France Telecom's flotation in Paris and New York on October 20.

Analysts said the main reasons for the level of subscription were Its status as the world's fourth biggest telecoms company, the share issua's relatively small size, and the fact that it was the first from the company.

Institutional investors are heing offered France Telecom shares at FFr187 each, while private individuals can apply for shares at FFr182 each. Some 2.5m individuals pre-registered to buy shares without knowing the offer price, which was announced on Monday.

Those who have pre-registered stand to get a better allotment ratio than huyers who emerged after the issue price was announced. Few of those who had pre-registered were expected to withdraw their orders.

Private investors can place orders up to FFr30,000 each, hut traders said yesterday that many stood little chance of getting any shares at all because of the level of demand.

France Telecom's shares were trading at FFr210-FFr211 on the grey market yesterday.

Accor upbeat as profits surge

By Andrew Jack in Paris

Accor, the French hotsls, tours and car rentals group, yesterday announced a fourfold increase in interim net income to FFr458m ($77.3m) in spite of substantial provisions, and expressed optimism over the prospects for the rest of the year.

Jean-Marc Espalioux, who was appointed chairman in Jannary, said: "There has been a very significant and rapid increase in results, which shows the potential of Accor at the end of last year."

He said the group was on target to achieve its objective of a 15 per cent return on capital, and predicted net income of FFr1.4hn for the full year against FFr1.1bn in 1996.

Return on capital stood at 9.7 per cent across the group for the first half, compared with 9 per cent for the 1996 year. The highest return came from its restaurant tickets at 19.2 per cent, followed by 15.3 per cent in its casinos division.

A FFr1.3bn capital gain on the sale of Accor's stake in Compass, the contract catering business, was offset by FFr1.3hn in provisions for the "reallocstion of resources", creating an exceptional gain for the period of FFr39m.

The reallocation will inclnde the sale and lease-back of Accor's less profitable hotels, covering an estimated $1bn in its economy US Motel 6 chain and FFr3bn elsewhere.

It took property provisions of FFr908m in its hotels division and a further FFr376m against other assets.

Mr Espalioux said Accor planned to increase its hotel capacity hy 10 per cent a year through organic and external growth in Europe, franchises in the US and the development of national chains in Poland, Brazil, Argentina and Indonesia.

He said the gronp was developing pilot computer programs which would show occupancy and availability in any of its hotels around the world, and an experimental "ouline" bedroom with full multimedia facilities for clienis.

Turnover at the group rose 8 per cent to FFr15bn, and the operating result was op nearly s third to FFr1.5hn. The largest growth in revennes came from its Europcar rental business, up 27 per cent to FFr12.6bn.

It is to sell a large proportion of its stake in Parc Asterix, the leisure park north of Paris which is to be listed on the second market this mooth.

EUROPEAN NEWS DIGEST

SAP buoyed by rapid growth

Shares of SAP hit a record high yesterday after the German business software group said it had continued to register rapid growth in the third quarter, traditionally a weak period for the company, and that sales were ahead of expectations. The share price, which has more than doubled since the beginning of the year, initially rose to an all-time high of DM516.50, but fell back to DM503.70 at the close of floor trading, up 1.1 per cent.

The group, which is enjoying one of the fastest growth periods in its 25-year history, attributed the sales gains to the weaker D-Mark and brisk demand for its core R/3 business application software. "The favourable business developments seen in the first half continued in the third quarter," it said. However, it warned that third-quarter costs had risen at almost the same pace as sales. It did not provide specific details.

In the first half, SAP reported a 51 per cent rise in sales to DM2.4bn ($1.36bn), although at the time it said it expected a slowdown in the second half.

SAP, which has said it will seek a listing on a US stock exchange next year, is due to release full results for the first nine months on October 22.

Sarah Althaus, Frankfurt

■ INDUSTRIAL GASES

Air Liquide seeks partner

Air Liquide, the French industrial gases group, is looking for a European partner to help develop the so-called "wet" chemicals side of its business. The group has expanded in this sector over the past two years in an effort to improve the service it offers to the semiconductor industry, an important part of its client base. "Wet" chemicals include products such as hydrogen peroxide, ammonium hydroxide and acids which semiconductor makers use mainly for cleaning purposes.

The news emerged as the group gave analysts a geographic breakdown highlighting the extent to which its recently announced 12 per cent increase in interim profits was driven by the strength of American markets.

Net profits from the Americas rose almost 50 per cent from FFr183m to FFr274m ($46.2m) on turnover ahead by one-fifth to FFr5.13bn. Elsewhere, only Africa achieved growth of more than 10 per cent, with profits up 20.6 per cent to FFr41m.

David Owen, Paris

■ CONSTRUCTION

Exceptionals help lift Bouygues

Changes in accounting methods and a big increase in exceptional profits enabled Bouygues to report sharply improved interim results. The French construction group yesterday reported first-half net attributable profits of FFr528m ($89.1m) on turnover of FFr42.38bn, against a loss of FFr146m on turnover of FFr34.18bn a year ago. Part of the advance in turnover was dne to the integration of Cise, a water treatment company.

The latest figures include an exceptional profit of FFr650m, due principally to the entry of Italy's Stet into the capital of Bouygues Telecom, which operates France's third mobile phone network.

The company's switch from the "contract completion" to the "percentage of completion" method of accounting for results in the building and public works sector means that profits on long-term contracts are now recorded as work progresses, rather than on completion.

Bouygues said the change was "in order to comply with international standards and to improve the clarity and transparency of its accounts for the financial markets". On a comparable basis to 1996, the company's net attributable profit would have been FFr172m.

David Owen

■ BREWING

Grolsch names new chief

Grolsch, the Dutch brewer of premium beers, yesterday appointed as chairman Jacques Troch, a Belgian who has been on its board only since May. Mr Troch, 54, will next month take over from Paul Snoep, who said in June be was stepping down after 10 years at the head of the company. The succession comes as profits are declining as a result of price competition amid a shrinking beer market in north-west Europe.

Mr Troch, a lawyer, joined the company in 1990 after more than 20 years at Belgium's Interbrew, which brews Stella Artois.

Gordon Cramb, Amsterdam

Pool Prices resulting from Dispute First Run

Trading Day 25.01.97

1/2 hour period ending	Pool purchase price £/MWh	Pool selling price £/MWh
0030	18.87	20.88
0100	18.87	20.59
0130	22.35	23.87
0200	30.39	36.70
0230	30.99	36.70
0300	30.85	36.70
0330	25.80	28.34
0400	22.29	23.97
0430	22.28	23.97
0500	22.29	23.97
0530	12.01	12.01
0600	12.01	12.01
0630	12.01	12.01
0700	18.75	20.45
0730	26.52	28.22
0800	29.94	30.78
0830	34.87	38.59
0900	34.98	36.61
0930	34.80	36.83
1000	34.98	36.64
1030	34.89	36.82
1100	34.98	36.61
1130	34.87	36.60
1200	34.87	36.58
1230	34.86	36.58
1300	29.04	30.78
1330	28.69	30.41
1400	31.71	33.42
1430	31.70	33.42
1500	31.75	33.42
1530	26.52	28.29
1600	26.53	28.25
1630	26.91	28.77
1700	30.15	31.72
1730	57.72	71.87
1800	67.92	71.79
1830	50.82	65.33
1900	47.14	49.73
1930	45.10	46.81
2000	32.40	34.16
2030	38.91	40.62
2100	31.51	33.22
2130	31.51	33.22
2200	23.14	24.45
2230	18.00	18.71
2300	12.01	12.01
2330	12.01	12.01
2400	11.85	11.85

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.88/MWh becomes 1.688p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8.30am and 5.15pm Monday to Friday.

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Pool Prices resulting from Dispute First Run

Trading Day 25.01.97

1/2 hour period ending	Pool purchase price £/MWh	Pool selling price £/MWh
0030	15.32	15.32
0100	15.32	16.56
0130	15.32	16.59
0200	31.45	32.88
0230	42.83	43.88
0300	51.39	52.59
0330	51.39	52.59
0400	42.63	43.86
0430	12.79	14.02
0500	12.01	12.01
0530	13.01	14.24
0600	13.01	14.24
0630	13.01	14.24
0700	26.13	27.39
0730	36.15	37.39
0800	36.17	37.41
0830	38.72	40.86
0900	39.74	40.98
0930	39.75	41.00
1000	39.75	41.01
1030	39.75	41.00
1100	39.74	40.99
1130	39.74	40.98
1200	39.73	40.98
1230	39.72	40.96
1300	36.19	37.41
1330	34.71	35.84
1400	34.79	35.94
1430	34.23	35.44
1500	34.23	35.46
1530	32.45	33.66
1600	34.24	35.49
1630	34.82	35.99
1700	56.05	58.02
1730	64.38	67.06
1800	69.83	68.83
1830	82.11	84.31
1900	51.79	53.26
1930	42.54	43.68
2000	41.25	42.49
2030	41.21	42.45
2100	37.80	39.00
2130	35.18	36.40
2200	35.18	36.40
2230	26.13	27.38
2300	20.46	21.72
2330	13.00	13.00
2400	11.88	11.98

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.88/MWh becomes 1.688p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8.30am and 5.15pm Monday to Friday.

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Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

Provisional Price for Trading on 08.10.97 | Final Prices for Trading on 10.09.97

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	14.79	15.17	15.29	1.20
0100	14.79	14.54	14.66	1.20
0130	14.79	14.54	14.66	1.20
0200	14.79	14.54	14.66	1.20
0230	14.79	14.54	14.66	1.20
0300	14.79	14.54	14.66	1.20
0330	14.79	14.54	14.66	1.20
0400	14.79	14.54	14.66	1.20
0430	14.79	14.54	14.66	1.20
0500	14.79	14.54	14.66	1.20
0530	10.43	11.87	11.99	1.20
0600	10.42	10.34	10.34	0.00
0630	10.44	13.56	13.68	1.20
0700	23.26	14.06	14.18	1.20
0730	23.08	15.33	15.45	1.20
0800	25.70	22.45	22.57	1.20
0830	35.69	24.07	24.19	1.20
0900	35.70	24.09	24.21	1.20
0930	27.51	28.86	28.98	1.20
1000	27.51	28.88	28.99	1.20
1030	25.71	28.97	29.10	1.20
1100	35.71	28.97	29.10	1.20
1130	36.72	28.97	29.11	1.20
1200	36.73	28.87	29.01	1.20
1230	38.73	28.86	29.00	1.20
1300	36.71	28.86	28.98	1.20
1330	35.70	23.20	23.33	1.20
1400	25.71	23.18	23.32	1.20
1430	25.71	23.19	23.31	1.20
1500	25.71	22.45	22.57	1.20
1530	25.71	22.45	22.57	1.20
1600	25.75	23.18	23.32	1.20
1630	27.61	31.17	31.20	1.20
1700	36.33	31.17	31.20	1.20
1730	59.39	31.17	31.29	1.20
1800	59.38	25.72	25.84	1.20
1830	38.10	22.44	22.56	1.20
1900	44.67	22.49	22.61	1.20
1930	45.61	22.49	22.61	1.20
2000	44.15	21.79	21.91	1.20
2030	45.51	27.07	27.49	1.20
2100	23.99	27.37	27.49	1.20
2130	26.08	24.93	25.05	1.20
2200	23.26	24.92	25.04	1.20
2230	23.17	18.59	18.71	1.20
2300	19.12	18.59	18.71	1.20
2330	19.12	18.59	18.71	1.20
2400	18.98	18.59	18.71	1.20

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.88/MWh becomes 1.688p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8.30am and 5.15pm Monday to Friday. ©Energy Settlements and Information Services Limited

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J.P. Morgan leads in Latin America

By William Lewis in New York and Geoff Dyer in São Paulo

J.P. Morgan, the US investment bank, was the leading mergers and acquisitions adviser in Latin America during the first nine months of this year. According to Securities Data, the M&A data consultancy, J.P. Morgan ranked top based on the number and volume of announced and completed transactions.

The investment bank announced 28 transactions during the first nine months totalling $10.6bn, and advised on 30 completed transactions with a total volume of $12.2bn. In 1996, it advised on $5.7bn worth of announced transactions and $5.1bn in completed deals.

Rothschild ranked second in terms of announced Latin American M&A deals done in the first nine months of 1997. It advised on 12 deals worth $4.7bn. Industry-wide, a total of 505 deals were announced worth $49.2bn.

In terms of deals completed, Salomon Brothers, which is being taken over by Travelers Group, ranked second. It advised on nine completed deals, worth a total of $6.2bn. In total, 381 deals were completed worth $47bn.

Timothy Purcell, co-head of Latin American banking for J.P. Morgan, said that while the level of M&A activity in Latin America was "relatively small" in comparison with the US "it is growing very rapidly", driven primarily by European and US multinational companies. However, M&A activity was also being boosted by intra-regioo takeovers.

Takeover activity has been growing strongly in Latin America as multinational companies have invested heavily in the region to take advantage of the high growth rates that macro-economic stabilisation has brought.

This restructuring process has been particularly deep in Brazil over the last year, where the liberalisatioo of the ecooomy has exposed the largely family-owned corporate sector to competition from imports and new entrants.

As a result, many of these companies have been williog sellers to foreign buyers trying to eoter the Brazilian market. Brazil has also launched a massive privatisation programme, with assets worth $80bn expected to be sold to the private sector over the next three years. This has provided a number of big deals for investment banks.

Looking forward, Mr Purcell said that most M&A activity was likely to centre on Brazilian privatisation. "The levels of activity will be influenced by how quickly the Brazilian government decides to press ahead with privatisation," he said.

In Brazil, J.P. Morgan advised Southern Energy, the US group which was part of a consortium that bought a 33 per cent stake in Cemig, an electricity company, for $1.1bo earlier this year.

Tricon aims to grow with a smile

There's good news if you want to eat on the hoof in the US: there have never heen as many *fast* food restaurants, and the competition between them is cut-throat.

But this is not such good news for the fast food operators themselves – among them Tricon, the fast food spin-off from PepsiCo that started trading on the New York Stock Exchange yesterday.

The number of fast food restaurants has been growing at 4 per cent a year in the US for the last two years, easily outpacing population growth.

So although Americans are eating out more, restaurant operators have been struggling: even the mighty McDonald's has seen US profits tumble.

As owner of the Pizza Hut, Taco Bell and KFC chains, Tricon has more fast food outlets than any other company in the world.

But about 80 per cent of its operating profits come from the US, leaving it heavily exposed to the world's most competitive market.

The company's financial results are muddled by so many special items that they are difficult to interpret.

But the company's letter to shareholders about the spin-off says operating profits fell by $91m, or 13 per cent, on an on-going basis last year.

Much of the decline was attributable to poor performances in the US from Pizza Hut, which suffered a 4 per cent decline in stores open more than a year, and Taco Bell, which suffered a 2 per cent decline. Only KFC did better, increasing same-store sales by 6 per cent.

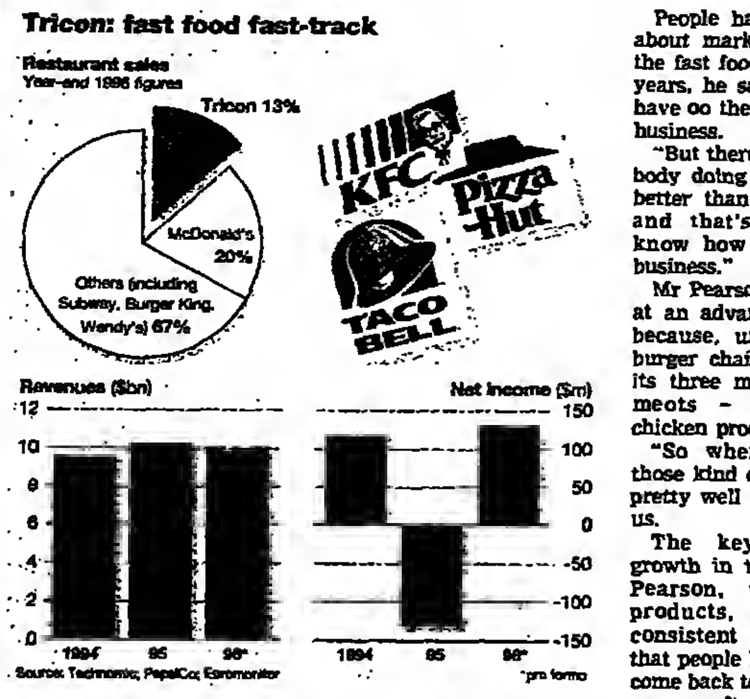
The declines at Pizza Hut and Taco Bell were caused largely by their inability to come up with attractive oew products. Pizza Hut in particular suffered from a comparison with the previous year's successful introdnction of the Stuffed Crust Pizza.

The first half of this year has shown signs of a turnaround. Although Pizza Hut's same-store sales fell another 7 per cent, KFC's were up 4 per cent and Taco Bell's were up 3 per cent. Overall, operating profits on an on-going basis rose by $78m, or 22 per cent.

However, much of the profit increase came not from higher restaurant sales, but from Tricon's policy of franchising oot restaurants to owner-operators.

At the end of last year, some 44 per cent of Tricon's restaurants were company-owned, compared with 21 per cent for McDonald's, and Tricon is trying to even the numbers up. Tricon receives an initial licence fee from each franchising deal, and usually realises a gain on the sale of the restaurant.

Tricon: fast food fast-track



Source: Technomic; PepsiCo; Euromonitor

In additioo, its annual franchising income from each property often exceeds the profit it was previously making from the same property.

Thanks to the expected increase in franchising income, Tricon's shareholders can look forward to rising profits in the short-term in spite of a $4.8bn deht hurden imparted to the company by PepsiCo as a farewell gift.

Further ahead, however, they will he looking for underlying growth in the business.

Mr Andrall Pearson, chairman and chief executive, says much of that growth will come from expansion outside the US. Half the company's revenues and profits, he predicts, will come from outside the US "in the not too distant future."

But Mr Pearson stresses that he sees hig opportunities for expansion in the US, too.

People have been talking about market saturation in the fast food husiness for 20 years, he says, just as they have oo the rest of the retail business.

"But there is always somebody doing a heck of a lot better than everybody else, and that's hecause they know how to manage the business."

Mr Pearson says Tricon is at an advantage in the US because, unlike the Hamburger chains, it dominates its three main market segmeots – Mexican food, chicken products and pizza.

"So when people want those kind of products, they pretty well have to come to us.

The key to Tricon's growth in the US, says Mr Pearson, will be good products, good value, consistent innovation, so that people have a reason to come back to the restaurants more often, and most importantly, superior execution.

"That's the challenge: when somebody comes in, somebody says 'hi' and smiles at them, takes their order and hands it to them, and says thanks for coming to Pizza Hut or Taco Bell or KFC, and that's what it's about.

"This business is not ahont concepts, it's about superior execution."

Richard Tomkins

Peugeot poised to expand in Brazil

By David Owen in Paris

Peugeot-Citroën, the French car group, is poised to announce a long-awaited investment in a new Brazilian car plant as part of a drive to step up its international presence.

The company has decided to locate its first Brazilian plant in the state of Rio de Janeiro. The factory will involve an investment of some $600m and prodnce 70,000 vehicles a year.

The move will continne a trend which has seen leading carmakers pump billions of dollars of investment into the sub-continent, attracted by the region's size, population and potential for economic growth.

Last year was a record year for motor industry spending in Sonth America, with Germany's Volkswagen – the biggest carmaker in the region – opening two oew plants in Brazil in the last quarter of 1996 alone. Italy's Fiat, VW's biggest rival in the region, has invested large sums to boost outpot in Brazil and launch its Palio "world car".

Peugeot-Citroën recently reported half-yearly profits of FFr564m ($95m), down 6.3 per cent. It was hit hy the depressed state of its domestic market hnt hnoyed hy beneficial currency flnctnations and strong sales outside Europe.

The results were the last released under the stewardship of Jacques Calvet, its long-serving chairman, who was replaced by Jean-Martin Folz last month. Mr Calvet suggested as early as April that an announcement on a new Brazilian plant was imminent.

The company will be following the example of Renault, its domestic rival, which decided last year to build a plant in Brazil. The French carmakers have been criticised for being unadventurous, compared with competitors, in fast-growing regions such as South America and eastern Europe.

AMERICAS NEWS DIGEST

Amoco Chemical in Indonesian link

Amoco Chemical, part of the Chicago-based energy and petrochemicals group, said yesterday that it was teaming up with Salim Chemicals, Indonesia's biggest producer of chemical products and largest conglomerate, to look at developing a 200,000-ton a year polypropylene plant in Merak.

A joint feasibility study is due to be completed in the first half of 1998, and the aim would be to bring oo the facility by early 2001, in conjunction with a previously announced Salim-BP cracker.

The cracker, costing between $500m and $1bn, will be Indonesia's second such facility. When the venture was announced in January this year, the partners said that it was likely to start processing in 2000.

No figure was disclosed for the likely cost of the polypropylene project, should it go ahead, but similar plants would cost in the $200m range. Amoco, the world's third largest producer of polypropylene, already has manufacturing facilities in the US and Europe, hut this would represent its first such investmeot in the Asia-Pacific region.

Nikki Tait, Chicago

■ INSURANCE

AIG enters Polish property

AIG, the international insurer and financial services company, working in conjunctioo with the Lincoln Property Company, a US property developer, has moved into central Europe's real estate market with an $80m warehouse project in Warsaw, the Polish capital.

The Diamond Business Park's $20m first phase, due to be completed next March, will add 30,000 sq m of western-standard storage and office space to Warsaw's underdeveloped warehousing market – which is currently estimated to total a mere 52,000 sq m.

The warehouse, which is heing built hy Black and Veatch, a US constructioo company, is sited on 22 hectares of land near the Janki shopping centre oo Warsaw's southern rim. The Diamond Business Park will provide a total of 100,000 sq m of storage space at completion.

The AIG partnership with Lincoln is also planning to build housing in Poland and is considering the construction of commercial and office building in Prague, the Czech capital. AIG/Lincoln have already built 250 housing units in Berlin.

Christopher Bobinski, Warsaw

■ TECHNOLOGY

Unisys moves to reduce debt

Unisys, moving to reduce its debt load, yesterday called for redemption of $345m in convertible notes. "This is the first step toward our goal of reducing the company's debt load by $1 billion by the year 2000," said Lawreoce Weinbach, newly appointed chairman and chief executive of the computer and computer services company.

"We are focused on making major improvements in our capital structure," he added. The debt conversion would save approximately $28m a year in interest payments, Unisys said. The notes are convertible into Unisys shares at a price of $10.24. Yesterday, Unisys shares were trading at $14 3/16 in mid-session.

Louise Kehoe, San Francisco

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

BTR sales could attract £480m bill

By Ross Tieman

BTR could face a bill of £480m ($777.6m) for tax and advisers' fees arising from its plan to turn itself from a conglomerate into a focused engineering group.

Brokers estimate that the bill for capital gains tax arising from the UK conglomerate's £3.1bn worldwide disposal programme is likely to reach £340m. Up to £140m more is likely to be spent on sale-related costs, including fees for investment bankers, solicitors and accountants, they say.

Ian Strachan, the BTR chief executive, revealed the second-round restructuring last month – and disappointing half-year results.

He is believed to have appointed Schroders to find buyers for the group's portfolio of packaging, materials, building products and polymer engineering businesses.

In addition, Goldman Sachs, the US investmant bank, bas apparently been retained to assist in finding buyers for the packaging and materials businesses, which, with annual sales totalling £1.45bn, are the largest operation earmarked for disposal.

Some analysts believe BTR may float tbe packaging operation in a public offering. But most believe a trade sale to a rival is more likely.

The glass packaging business, with sales last year of £572m, is expected to attract the attention of rivals, including Owens Illinois with which it has licensing agreements.

Possible buyers for the Pet bottles and other plastic packaging operations, with annual sales of £445m, could include peers such as Johnson Controls, Constar and Southcorp. Also on the sale list is Formica, the US-based laminates business (annual sales £438m).

BTR's building materials manufacturars – largely based in Australia – which have annual sales of £618m, are expected to attract keen bidding from local rivals.

Polymer products, based in the UK, continental Europe and Australia, are believed to be a strong candidate for a management buy-out.

Analysts estimate that receipts from the disposals could range from about £2.7bn to £4.2bn. But the consensus has settled at £3.1bn, including a further £125m of receipts expected from sell-offs announced last year.

Part of the sale proceeds, some £345m, is expected to be applied to redeem debt. That would leave the group with interest cover of 5 to 6 times, a level with which Kathleen O'Donovan, finance director, has indicated she would feel comfortable. Up to £1.26bn is expected to be used in a share buy-back to bolster the value of shares and redoce the dividend distribution.

The remaining funds, some £1.5bn, are likely to be set aside to invest in the company's on-going engineering businesses or reinforce them by acquisitions.

Critics base their attack on the margins

Ross Tieman takes a look at the conglomerate's efforts to become an engineer

The bears have their claws into BTR. Since the conglomarate announced a £3.1bn ($5.02bn) disposal programme last month, a string of brokers' circnlars bas highlighted the dilution of earnings expected to flow from its decision to reshape itself into an engineering group.

The problem stems, as ever, from the high profit margins earned in the past by the group's portfolio of manufacturing operations, which range from car parts to plastic packaging.

Selling them off will bring in cash, which earns a lower return. Yet it could be several years before the group is able to reinforce its core engineering operations by acquiring businesses that enjoy comparsble profit margins to those of the companies sold – albeit with better growth prospects.

The sharpest criticisms, bowever, have focused upon two perceived weaknesses in management performance.

The first is the purchase little more than two years ago of the 38 per cent minority which BTR did not own in BTR Nylex, its Australian arm.

BTR ended up paying £2bn for the minority, a premium of more than 25 per cent to the BTR Nylex valuation before the plan was announced.

Yet according to tha latest estimates, on the basis of turnover BTR Nylex operations account for about 80 per cent of the group of businesses now earmarked for disposal. These include all the packaging and materials operations, most of BTR's building products, and a minority of its polymers business.

Allowing for interest on borrowings, and central costs, the deal valued the entire BTR Nylex operations at about £3.8bn at today's exchange rates. That suggests that just two years ago the entire group of businesses for sale was worth £4.4bn to £4.9bn.

Yet most leading analysts believe the company is likely to raise only about £3.1bn from its latest disposal programme.

If that proves correct, "the process of buying into BTR Nylex and then selling most of it on has been shockingly dilutive, to tha tune of 30 per cent over two years", according to one broker.

Another report says: "It is difficult to escape the conclusion that tha £2bn Nylex minority purchase represented a significant depletion of value for BTR sbareholders."

The second point of concern is the performance of the engineering businesses upon which BTR has now decided to focus. During the first half, these achieved underlying sales growth of 5 per cent. Brokers say underlying growth in operating profits from these businesses was 1 per cent or even less.

When the strategy was unveiled, Ian Strachan, BTR's chief executive, said that hy focusing on sales growth, and cutting costs, BTR would be able to lift earnings "at least as fast as the wider market".

In spite of the criticisms, some brokers are prepared to back that promise with bny recommendations. Bruce McDonald, of NatWest Securities, believes that with the support of a new heavyweight chairman, Robert Baumann, Mr Strachan may yet trump his critics.

"They are selling at the bottom, having bought at the peak," he says. "But it is something they had to do to take the company forward.

"In five years' time we may look back and see it was exactly the right thing to do."

But on one point all agree. The transformation of BTR into a group capable of sustained ontperformanca is likely to take longer than most investors imagined when Mr Strachan was appointed almost two years ago. And the ride is proving more uncomfortable, and more unpredictable, than any would have wished.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Bloomsbury	6 mths to June 30	4.76	(4.4)	0.367L	(0.379L)	4.27L	(4.55L)	0.7	Nov 28	0.7	-	3.5
Cobham	6 mths to June 30	151.1	(132)	24.9	(20.8)	18.2	(15.2)	4.05	Dec 12	3.5	-	11.3
Donatantonio	6 mths to July 31	5.07	(4.62)	0.599♠	(0.418)	2.6	(1.8)	0.6	Jan 2	-	-	-
Eyecare Products	8 mths to June 30	32.8	(35.3)	1.51	(2.35)	1.6†	(2.3)	-	-	0.57	-	0.57
Halstead (James)	Yr to June 30	78.3	(77.6)	7.71	(10.6)	14.14	(23.51)	8.15	Nov 28	6	8.65	9.25
JJB Sports	6 mths to July 31	88.6	(55.2)	14.2	(7.24)	10.55	(5.03)	2.25	Dec 8	1.5	-	4.5
Lambert Smith	6 mths to July 31	18.5	(13.6)	1.42	(0.21♠)	5.4	(1.4)	1.1	Nov 14	-	-	1.6
Maunders (John)	Yr to June 30	77.8	(67.8)	6.23	(4.52)	16.85	(12.07)	3.7	Nov 28	3.25	6.3	5.7
MSB Intl	8 mths to July 31	54.9	(30)	3.71	(2.17♠)	12.1	(7)	3	Oct 31	2	-	8
Newport	8 mths to June 30	1.73	(1.31)	0.264	(0.061)	3.08†	(0.55)	-	-	-	-	1
Pentex Energy	Yr to June 30	24.6	(37.2)	38.3L♠	(12.9)	11.68L‡	(4.43)	0.2	Dec 12	0.29	0.2	0.87
Sinclair (William)	Yr to June 30 ★	55.7	(45.5)	6.37♥	(6.33♥)	19.7†	(20.3)	6.7	Nov 25	6.1	8.8	8
Thorntons	Yr to June 28	111.3	(97.6)	11.5	(13.8L♠)	13.32	(23.48L)	4.2	Nov 28	3.8	5.85	5.3
Walker Greenbank	6 mths to July 31	48.8	(51.5)	4.52	(4.36)	2.51	(2.42)	1.3	Dec 9	1.3	-	3.7
West Bromwich ф	Yr to June 30 ☆	8.07	(5.43)	0.185L♠	(0.171)	2.64L†	(4.63)	-	-	-	-	-

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Exmoor Dual	Yr to Aug 31	37.4	(21.6)	0.584	(0.636)	6.4	(7.21)	1.8	Dec 1	1.6	6.8	6.4
Henderson American	6 mths to Aug 31	74.32	(57.06)	0.355	(0.312)	4.73	(4.18)	1.8♦	Nov 7	1.8	-	7.8

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ‡ ‡‡On reduced capital. ★Comparatives restated. фAim stock. ☆Comparatives for 13 months. ♦Second interim; makes 3.6p to date.

Bournemouth News

Gordon Page in cockpit of a RAF Nimrod being refurbished

Cobham poised for sales take-off

By Peter Marsh

Cobham said yesterday it was poised for strong sales growth, as the specialised engineering group announced a 20 per cent rise in first-half profits.

Gordon Page, chief executive, said the company hoped to raise annual turnover 50 per cent to about £450m ($729m) within three years, helped by a number of small acquisitions.

Mr Page said that the company was in a "healthy" state with an order book of £630m, above the figure of a year ago.

In the six months to June 30, pre-tax profits were £24.9m (£20.8m) on sales np 15 per cent to £151.1m.

The company's activities include the manufacture of flight refuelling systems and microwave communications networks, and operating training services to military users in fields such as electronic warfare.

Mr Page said the company was benefitting from being in a number of "niche" areas. For instance, in flight refuelling it was involved in projects with both Boeing and Lockhead Martin, the two US companies competing for large contracts with the US Defence Department in the Joint Strike Fighter aircraft programme.

The company is also optimistic about its efforts in non-aerospace activitias, built around its acquisition in 1995 of Westwind, a world leader in novel types of air bearings for industries such as electronics, machine tools and textile systems. Westwind generates about 10 per cent of Cobham's sales. According to Mr Page, its revenues could triple in the next five years.

Cobham said it planned to spend small sums in the next year or so on acquisitions.

Scrip benefit for T&N investors

By Andrew Edgecliffe-Johnson

Tha rise in T&N's share price since Federal-Mogul's £1.25bn ($2.02bn) takeover approach could increase the value of T&N's latest dividend by almost 60 per cent, it emerged yesterday.

Robert Speed, engineering analyst at Henderson Crosthwaite, said shareholders could raise the value of their dividends by more than £10m by opting for the scrip dividend rather than the 3.2p per share cash payment offered as T&N's second interim.

PDFM, the fund manager which holds a near 25 per cent stake, could make almost £2.5m from the quirk in the dividend arrangements, as well as a large profit on its holding should the takeover go through.

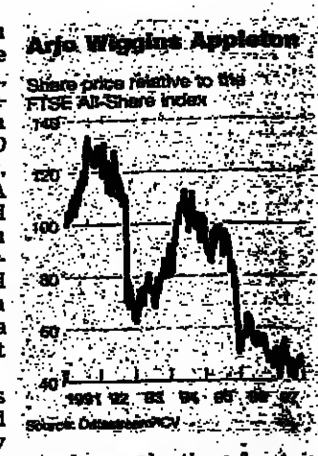
The scrip dividend offers investors shares rsther than cash. The number of shares is calculated on the assumption that each share is worth 152.7p - roughly the shares' level at the time of the interim results in August.

Federal-Mogul's approach, which investors expect it may have to raise from the 235p per share level it indicated, has lifted T&N's shares to 243½p.

There was renewed speculation yesterday that Dana Corporation of Ohio could still be interested in a bid for T&N. Dana said: "We don't issue any comment on our current or potential acquisition activity."

LEX COMMENT

Arjo Wiggins



Arjo Wiggins Appleton investors should take heart from news that Ifil, the Agnelli holding company, is proposing a friendly takeover of its 40 per cent shareholdar, Worms & Compagnie. A change in ownership could end the clash between French and British interests which has prevented the group from playing a full part in the industry'a consolidation in recant years.

Bnt the real question is what the Agnellis would do with the stake if they succeed in winning Worms. Break-up valuations for Arjo range from 230p to 250p per share, a 15-25 per cent premium to the current share price. But it would be difficult for Ifil to prompt a break-up. It would require either finding a buyer prepared to bid for the whole group or buying out the balance of Arjo at a cost of more than £1.2bn ($1.94bn).

Ifil could place the stake. The snag is that placing 40 per cent would require a heavy discount on the current price. So why not do a deal with Arjo itself? It could easily afford to buy half the stake – perhaps at a discount to the market – allowing Ifil to place the rest. A 20 per cent share buy-back, of about £300m at yesterday's price, would leave interest cover at a strong 5.6 times, and enhance earnings by an estimated 16 per cent next year. Moreover, it would go a long way towards rewarding long-suffering shareholders whose interests appear to have been buffeted by the shareholding structure of recent years.

NEWS DIGEST

R Dutch/Shell in Caspian move

Royal Dutch/Shell, the Anglo-Dutch oil and natural gas group, yesterday confirmed that it was trying to catch up with its competitors in the southern Caspian Sea region, which is expected to become an important source of the world's oil in the coming decades.

The company, which has been noticeably absent from the growing line-up of big international oil companies which have flocked to Azerbaijan over the past few years, said it was "interested" in taking a stake in the Kyurdashi field, located in the southern Caspian Sea.

But Shell would not confirm reports that it was trying to secure a 25 per cent stake in a $2.5bn project, which also involves Agip, the Italian oil company. Other international energy groups which are said to be interested in the field include Texaco and Chevron of the US, Total of France and TPAO of Turkey.

Shell has not missed out entirely in the rush to secure positions in the Caspian region. It is a member of a consortium negotiating with Kazakhstan to drill in an offshore area of the northern Caspian. *Robert Corzine*

P&O forges Norwegian link

P&O, the shipping and property group, yesterday unveiled a partnership with Farstad Shipping of Norway, to operate their offshore supply vessels internationally. The partnership is expected to become operational by the end of the year.

P&O and Farstad will own equal stakes in the business which will take over virtually all of P&O's existing offshore supply business currently included in its Australia subsidiary. The partnership, which will have its headquarters in Norway, will initially operate seven ships, five of which will come from P&O. P&O will contribute vessels worth $59.2m, and Farstad $32.8m.

P&O said the move was part of its strategy to focus on core businesses. Its shares rose 16p to 696p. *Charis Gresser*

Abbott takes Biorex stake

Abbott Laboratories, the US pharmaceuticals group, has agreed to take a stake in Biorex, a Hungarian biotechnology company, and license its lead products.

The deal, which has yet to be signed, will see Abbott make a significant investment in the company, and provida funding for at least two years.

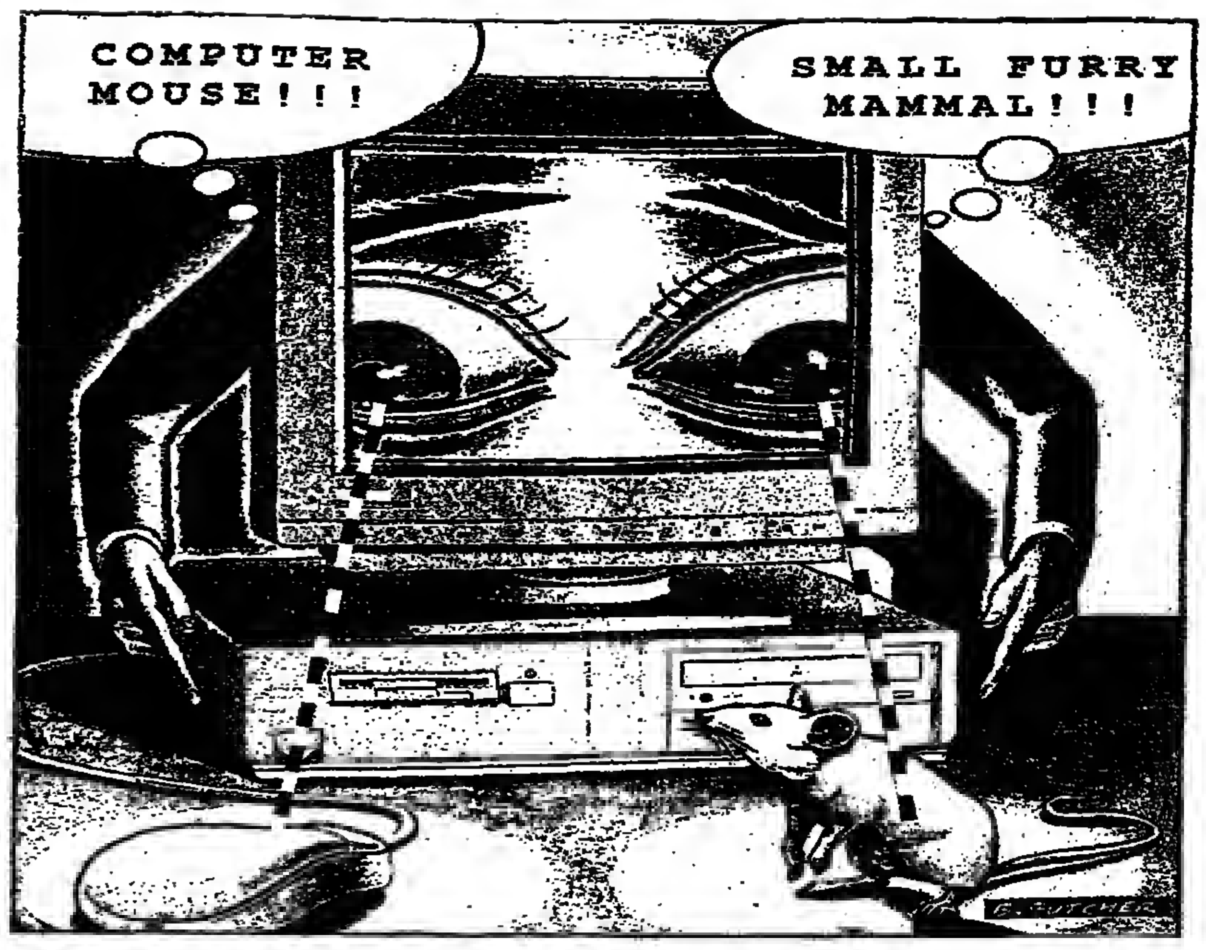
Biorex, which is 63 per cent owned by the Jersey-based First Hungary Fund, had been planning to list on the UK stock market. That plan was now on hold, but First Hungary managers said it might still be considered in the longer term, although a sale to Abbott was also a possibility.

Abbott, which has been negotiating the deal for several months, is paying 40 per cent over Biorex's value on First Hungary's books, set at $65m last December. *Roger Taylor*

Language processing · George Cole and Louise Kehoe

Wise words make machines see sense

Microsoft researchers have embarked on an ambitious project to help computers understand their users



Computers may have infallible memories and the ability to process quickly vast quantities of data, but when it comes to understanding plain English – or any other human language, for that matter – they are really dumb.

Try asking a computer to search the internet for documents on "romance," and the results will inevitably convince you it bas been searching for love in all the wrong places.

Yet if we humans are ever to interact naturally with computers, the machines must learn our languages.

That is the ultimate goal of researchers in "natural language processing" (NLP), a science that is on the brink of producing technological breakthroughs that could make computers much easier to use and much more useful.

Already, there are several applications of NLP in commercial use. These include computer speech recognition, text-to-speech translation and automated language translation systems. To date, however, most are designed for use in specialist applications.

International Business Machines, for example, offers speech recognition systems for use by doctors that translate the spoken word into text. In the automated translation arena, a bi-directional Arabic-English translation system, based on NPL, was previewed last month by Sakhr Software of Cairo, Egypt.

There are also speech recognition systems aimed primarily at disabled computer users and text-to-speech readers for the blind.

However, work under way at Microsoft's research laboratories in Redmond, Washington, may soon bring NLP to the "mass market" of personal computer users.

Over the past few years, the software industry leader has drawn together a team of more than 50 of the top computer scientists, linguists and other specialists in the field in an ambitious effort to incorporate NLP in its products.

Their efforts have already born fruit in the "grammar checker" that is part of Microsoft's Word 97 word processor, which uses NLP to improve its performance. But this is just the beginning.

The Microsoft researchers have embarked on an ambitious project to develop "MindNet" ; a huge collection of word definitions, grammatical rules and samples of how words are used that will help computers to understand human language.

This is a tall order. Language is both complex and subtle, with the same word often having several different meanings.

Kareo Jensen, an NLP researcher, gives the example of a person asking an internet search engine to find the answer to the query: "Who makes the fastest chips?"

Most people could guess that the question related to microprocessors rather than gambling currency, fast food or small pieces of wood.

When the Microsoft NLP researchers tried this question on internet search services, they found that on average, only two of the first 10 results were relevant. Services that rely only on "keyword" searchers cannot differentiate between semiconductor chips and potato chips.

In contrast, MindNet uses NLP to analyse the links between a vast number of words culled from dictionaries – there are now over 7m links, and the number is growing – and applying syntax, context and other linguistic analysis methods to clarify the real meaning of the computer user's question.

This method involves the computer analysis of thousands of sentences, such as, "a bird is a creature", "wings are part of a bird", "a bird is not a plant", and so on.

The links help to build a "semantic network" that enables the computer to understand the rules of grammar, and how phrases are related to each other, says Ms Jensen.

By using the links created by MindNet, a computer can even discern ambiguous phrases such as: "I saw the Grand Canyon flying to Arizone". And when MindNet technology was used to answer the above query on the fastest chip maker, six of the first 10 internet sites retrieved were relevant.

This is big improvement over the performance of today's internet search services which typically yield just two or three relevant documents among the top 10 that they present as the result of a search of the world wide web.

Despite this achievement, MindNet has only mastered a fraction of the English language, and much work lies ahead. Another team at Microsoft is applying the work to other widely-used languages.

Within two or three years, Microsoft aims to incorporate NLP features in its Office personal computer applications and one day a NLP search system will no doubt become part of a future version of Windows.

Perhaps computers will never understand all of the nuances of human language, but developments like Mindnet should at least result in them understanding us a little better.

Information Technology
● The FT's review of Information Technology appears on the first Wednesday of each month

Giving PCs 'the vision thing'

Imagine a computer that recognises your face, understands your gestures, and can be turned off simply by a shake of the head. Workers at Microsoft Research's Vision Technology Group are aiming to develop PCs that will do all this.

Despite their amazing processing power, most of today's PCs are essentially blind, deaf and dumb devices – they cannot "see" their users, nor can they recognise speech or talk to a person.

More and more PCs are offering speech recognition and speech synthesis systems, but vision recognition technology is still based firmly in the laboratory.

Many PCs use video conferencing systems from companies such as Intel, Sony and PictureTel, but these do not use vision recognition technology.

A video conferencing system uses a camera to capture a digital still or moving image of the PC user, which is then transmitted via a telephone line to another PC user. The PC simply processes and displays the video image – it does not recognise the users nor understand what they are doing.

Microsoft, which has been developing vision recognition systems since 1995, has recently started showing them to a public audience.

In one demonstration, Steve Shafer, senior researcher at the vision technology group, programmed a PC to recognise when he was present. A camera mounted on the PC captured his image, which was displayed inside a rectangular box or "vision zone" on the PC screen. The PC uses the vision zone to detect whether anyone is present.

When Mr Shafer moved inside the vision zone, the PC automatically displayed his work screen. The system uses sophisticated vision processing software, which Microsoft says could be refined to recognise individuals and deny access to unauthorised users.

In another demonstration, Mr Shafer played a game of noughts and crosses simply by moving his hands in front of the PC.

The long-term objective is to develop software that can recognise eye movements. For example, someone playing a computer game could control the action with their eyes.

The technology can also be used for "playing" musical instruments on a PC by using gestures, such as a hand clap to create a cymbal sound. A PC can also be programmed to recognise a nod or a shake of the head.

The most obvious users of vision recognition technology are people with physical disabilities. The technology could also be used to enhance speech recognition systems, by enabling PCs to "lip-read".

But Rick Rashid, vice-president of Microsoft Research, believes vision recognition systems will also be used by the millions of people who find it difficult to operate a computer keyboard or mouse.

Although vision recognition technology is probably six or seven years away from reaching the mass market, Dr Rashid predicts that more and more PCs will be offering some form of vision technology.

"Within three years it will be unusual to buy a new computer that isn't equipped with a built-in camera," he says.

GC

Electrons to beam down on chips

Researchers have long dreamed of using electron beams to write patterns on integrated circuits, rather than conventional optical technologies. This is because light has too large a wavelength to produce patterns much smaller than the 10 millionths of an inch possible today.

But unfortunately an electron-based lithography system fast enough to be used economically has proved elusive.

In 1989, a technique to overcome this known as Scalpel (for "scattering with angular limitation projection electron lithography") was invented by Murray Gibson, a professor at the University of Illinois, and Steven Berger of Integrated Solutions.

Both were then employed at AT&T Bell Laboratories (now Lucent Technologies), where a Scalpel proof of concept machine has recently been built to demonstrate the feasibility of manufacturing features with widths of less than three millionths of an inch.

The machine also demonstrated the feasibility of the method to reach production within the next decade, although that would take some $1bn (£600m) of investment, says Prof Gibson.

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A feature article by Louise Kehoe on the future of chip making appeared in the FT on October 3.

Thin 'coats' add more data to disks

As researchers seek to cram increasing amounts of data onto a hard disk, they face a problem: the disk surface and slider or reader head will have to move so close together that it will almost be a matter of semantics whether they are touching.

Normally, they are protected with "overcoats" made of sputtered-on, hydrogenated carbon 12 to 15 nanometers (thousand millionths of a metre) thick. But higher data densities require reduced magnetic spacing between heads and disks, so the coatings must be thinner and even harder.

Researchers at Lawrence Berkeley National Laboratory in California and IBM have achieved this with a technique called cathodic arc deposition, used for decades by toolmakers for putting hard coatings on cutting edges. The result is an ultra-thin layer of diamond-like carbon armour.

Lawrence Berkeley: e-mail paul_preuss@lbl.gov

Further details in the October edition of Data Storage magazine.

Watching brief

Net security products set to expand

The worldwide market for internet security products – firewalls, authentication and encryption, anti-virus tools and services – is forecast this week to expand from about $900m (£555m) last year to nearly $7bn in 2001.

The prediction comes in a report from the consultants Datamonitor, which says growth will be rapid in all product segments driven by consumer and business commerce applications and the uptake of remote internet access.

Internet/Intranet Security: Safeguarding the Path into the Network Age; £1,995. Fax UK (0)171 625 5080, or US 2126862626.

Finding the best route to the shops

MapInfo, the North Carolina-based producer of business mapping tools, is introducing MapXsite, which enables web developers and internet service providers to embed "where's the nearest" capabilities quickly and effectively into websites.

WalMart Stores in the US is already using the tool to help customers find the nearest store via the net, receiving the information on a detailed map.

Unlike many similar products, MapXsite does not require the use of "hosting services" for the data, control of which is retained by the site operator. It costs $4,995 in the US (£3,495 in the UK) per application, per server.

MapInfo, UK: tel (0)1753 848200. A free 30-day trial can be downloaded from www.mapinfo.com.

Shoppers at a Wal-Mart store in Durham, North Carolina

End-to-end printing for limited runs

Traditional offset printers are very effective for print runs of 2,000 or more, but high set-up costs often make it uneconomic to produce a few copies of a book or other document.

A solution has been developed by Océ, the Dutch-based office equipment group. Its Print on Demand system is claimed to be the first end-to-end approach that is fast enough and of sufficient high quality to attract short-run bookpublishers.

With little or no set-up costs and a fixed cost per unit, the just-in-time printing system is aimed at everything from books (test runs, review copies, late copies needed after the main print run) to technical or training manuals. Inch-thick handbooks for PCs and other equipment could be replaced by short versions produced in parallel with the equipment they describe.

Océ (UK), tel (0)161 498 6241, web www.oce.com

Workflow to pick up pace on intranets

The power of the internet as a communications tool is beginning to make its mark in the world of workflow management software.

Austrian-based CSE Systems has launched version 5.0 of its CSE/Workflow product with enhancements designed to improve ease of use and to manage web- and intranet-based processes.

Using a standard web browser, a wide range of end users outside a main organisation will be able to interact with its workflow management system.

CSE International, UK: tel (0)1483 453900, fax (0)1483 457145, web www.csesystems.com

Compiled by Andrew Baxter. Information for the column can be sent via e-mail to infotech.page@FT.com

INTERNATIONAL CAPITAL MARKETS

Italian crisis casts shadow over Europe

GOVERNMENT BONDS

By Simon Davies in London and John Labate in New York

European bond markets were generally weaker yesterday as the political crisis in Italy cast its sbadow, given the potential knock-on effects on European monetary union if the government were to collapse and early elections called.

ITALIAN BTPs bad a frenetic day. "The bond market has been gyrating wildly on the back of politics, with politicians making contradictory statements", said Luca Jellinek, bond strategist at Paribas Capital Markets.

At the low point of the day, tbe December fnture was down 0.88, but the contract settled 0.22 higher at 112.75, witb more than 107,000 contracts traded.

The outcome of the current impasse between prime minister Romano Prodi and his erstwhile partners in the Reconstructed Communist perty remained wholly uncertain when the market closed. Indeed, the futures contract finisbed trading shortly before more negative comments from Fausto Bertinotti, the RC leader, which would have sent bond prices down again.

Mr Jellinek said: "Italian convergence on the economic side has already happened, but investors are concerned that a political crisis could derail it."

Nonetheless, most analysts remain confident there is limited downside for BTPs, since the most logical replacement for tbe Prodi government would be a market-friendly technocratic administration.

SPANISH BONOS tracked BTPs for much of the day. The future closed 0.11 lower at 104.45, but this was 0.58 above its low for the day.

In the UK, convergence euphoria continued to dissipate, encouraged hy higher than expected beadline inflation figures. The GILTS future settled $\frac{7}{32}$ lower at 120¾, with the spread against bunds widening to 98 basis points.

However, tbe underlying rata of inflation, after stripping out mortgages, continued to decline and there remains little expectation that the Bank of England'a monetary policy committee will increase interest rates when it meets tomorrow.

GERMAN BUNDS also edged downwards, despite the announcement of a further increase in seasonally adjusted unemployment. Even in western Germany, wbere the economy has the henefits of current export growth, unemployment continued to rise.

Heinz Gunasekera, bond strategist at UBS Securities, said: "This shows that the domestic economy is still weak. If there was no Emu, investors would be speculating about a possible interest rate cut." Most investors saw the figures as at least arguing against a rate rise on Thursday.

US TREASURIES continued to move higher as investors awaited a series of minor economic reports.

By early afternoon the 30-year bond was up $\frac{7}{32}$ to 101$\frac{23}{32}$, yielding 6.242 per cent. The 10-year note rose $\frac{3}{32}$ to 101¾, yielding 5.929 per cent, and the two-year note was $\frac{1}{32}$ higher at 100$\frac{1}{32}$, yielding 5.631 per cent.

Bonds opened higher on renewed buying from overseas markets. Helping to keep prices firmer later in the morning was the first of two reports on retail sales for the first week in October.

The BTM/Schroder Chain Store Sales report fell 0.5 per cent for the week, indicating customer purchases had slowed from the prior weeks.

"We've seen a continuing trend in weaker private retail sales reports, but the Commerce Department has been cautious about some of these reports," said Tom O'Connell, senior government trader at First Chicago Capital Markets.

A separate report on consumer credit for August was due to be released later in the day.

Toyota launches record Swiss franc offering

INTERNATIONAL BONDS

By Samer Iskandar

Toyota Motor Credit, the financing arm of the Japanese car company, yesterday launched the largest corporate bond in Swiss francs – SFr1bn of five-year notes.

The issue was also a rare transaction aimed at institutional investors, in a sector traditionally dominated by small buyers.

"We wanted to get Swiss institutional investors – pension funds, mutual funds and insurance companies – on board," said SBC Warburg, the lead manager.

The issue was launched under the fixed price re-offer method, wherehy all investors are offered securities at the same price, regardless of which syndicate member they buy them from.

"Along with the other big Swiss banks [UBS and Credit Suisse First Boston], we are pushing for the market to develop along more professional lines," SBC Warburg said.

The method has only been used once in the Swiss market, six years ago, with limited success. This was due to retail investors' heing less sensitive to pricing than institutional buyers.

Instead, they focus more on the notional amount of the coupon. As a result, the final price paid for bonds in Swiss francs has always varied widely, depending on the investor and the selling bank. f

SBC Warburg said the launch was "a great success" and the bonds were trading above the re-offer price.

GARANTI BANK, Turkey's third largest privately-owned bank with $6.6bn of assets at the end of June, launched its first eurobond via lead managers Merrill Lynch and UBS. The deal, priced to yield 355 basis points over five-year US Treasuries, was increased from $200m to $350m due to strong demand. The spread tightened after the launch to around 330 basis points.

A spokesman said Garanti was aiming to become the country's second largest bank before the end of the year. He said the bank, which had been active in the syndicated loans market, saw the bond issne as an opportunity to extend the maturity of its deht. Garanti plans to tap the markets again in the first half of 1998, possibly in D-Marks.

The D-Mark sector saw two sovereign issues yesterday. ARGENTINA launched DM1bn of 12-year bonds, its first issue since its debt rating was raised by Moody's last week to Ba3.

The bonds were offered to investors with a yield of 257 basis points over 10-year German hunds, or 247 points over the yield curve.

The lead manager, ABN Amro, said the launch was a "tremendous success", with hroad distrihution throughout Europe.

● The ratings of three Thai banks were downgraded yesterday by Moody's Investors Service and another three are facing possible downgrades by the US agency.

Thai Military Bank, First Bangkok City Bank and Bank of Asia saw their hank financial strength ratings lowered by one notch to E, E+ and E+, respectively.

Moody's said its action reflected "the greater vulnerability of the country's weaker banks to asset quality and liquidity pressures".

Ratings of Krung Thai Bank, Thai Farmers Bank and Bank of Ayudhya are under review for a possible downgrade.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
Garanti Bank(a)	350	9.375#	100.00R	Oct 2002	1.00R	+355(W Syr)	Merrill Lynch/UBS
Banco BCN Barclays(b)	100	8.00‡	99.948R	Oct 2005	0.50R	+230(6Aug00)	Barclays
■ D-MARKS							
Republic of Argentina	1bn	8.00	100.00R	Oct 2009	0.75R	+257(6Jul07)	ABN Amro Hoare Govett
Deutsche Ausgleichsbank	500	5.25	99.14R	Oct 2005	0.30R	+10(6¾Oct05)	Dresdner/Lehman Bros
Hellenic Republic‡	300	(c)	100.30	Oct 2007	0.30	-	Lehman Bros Bankhaus
■ FRENCH FRANCS							
Merrill Lynch & Co	3bn	5.25	100.04R	Nov 2003	0.325R	+31(i)	Merrill Lynch Finance
■ SWISS FRANCS							
Toyota Motor Credit Corp	1bn	3.00	100.65R	Nov 2002	0.25R	-15(swaps)	SBCWDR
■ GUILDERS							
Achmea Hypotheekbank	200	5.75	99.80R	Oct 2007	0.425R	+33(i)	ABN Amro Hoare Govett
■ EUROS							
Oest Kommunalkredit(d,l)	100	5.25	101.45	Dec 2003	1.875	-	BIL
■ PESETAS							
European Inv'ment Bank(e,s)	18bn	-	-	Sep 2007	0.20	-	Merrill Lynch España
SNCF(f)	15bn	(f)	100.00	May 1999	0.10	-	Banco Bilbao Vizcaya
■ ESCUDOS							
European Inv'ment Bank(g)‡	15bn	(g1)	99.875R	Oct 2005	0.175R	-	Banco Chemical Finance
■ NEW ZEALAND DOLLARS							
ING MM Bank	100	7.25	100.64	Nov 1999	1.25	-	Hambros Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: Fixed re-offer price; fees shown at re-offer level. a) Issued via Para Financial Services Co. b) Callable and puttable on 15/10/00 & 15/10/02 at par. b1) 8% to 15/10/00, then 8⅛% to 15/10/02, then 8¼%. c) 6-mth Libor +35bp. d) Pays in Ecu prior to Emu. e) Six separate tranches of Pta3bn. f) Redemption proceeds linked to 12-mth Libor at maturity; min 103%, max 140%. g) Callable on 31/10/00 at par. Recommended re-offer. g1) 6-mth Libor +40bp to Oct 00, then 5.7%pa fixed. i) Over interpolated yield. l) Long 1st coupon. s) Short 1st coupon.

CAPITAL MARKETS NEWS DIGEST

CME changes for Emu approved

The Chicago Mercantile Exchange, one of the two large US futures exchanges, will permit delivery for eligible currency futures to taka place in either the relevant national currency or the euro – the planned new European currency – during the transition to European monetary union, which is due to begin in 1999.

The US Commodity Futures Trading Commission, the regulator for the US futures industry, told the CME in a letter last week that it had approved the exchange'e planned amendments for the transition to monetary union, Dick McDonald, CME research vice-president, said yesterday.

The CME is due to begin listing March 1999 currency futures contracts on October 14, prompting the need for amended arrangements at this stage.

Under Emu requirements, currencies joining the union will bave a fixed rate matching the euro on January 1 1999. The CME plans to relist its European currency unit futures contract in the run-up to monetary union. It filed for regulatory approval last month with the CFTC, and could receive this by the end of this month. The CME'a proposed contract will be based on the value of the US dollar to Ecu125,000. *Nikki Tait, Chicago and agencies*

■ EMERGING MARKETS

Bulgaria appoints eurobond team

Bulgaria yesterday appointed J.P. Morgan and Merrill Lynch as ratings advisers and lead managers for its inaugural eurobond. The bond is expected to be launched in the first quarter of 1998. Analysts speculated that its size would be "similar to other emerging market debuts".

Borrowers are typically keen to make their inaugural issues successful, to pave the way for future refinancings. "A good size would be of the order of $250m: large enough to be liquid hut small enough to sell easily," said one analyst. The maturity is likely to be between three and five years.

Bulgaria was rated Ba3 a year ago by Moody's, with a positive outlook. Analysts said ratings by other agencies, such as Standard & Poor's or IBCA, might be higher. "Rating agencies are usually slow to react," said one analyst in London. "A first-time rating attributed now would take into account positive developments since [the new government came to power in] April, which are not yet reflected in Moody's rating." *Samer Iskandar*

■ MILLENNIUM BOND

Safra Republic to raise $250m

Republic National Bank of Luxembourg is issuing the first 1,000-year bond on behalf of Safra Republic Holdings, based in Switzerland. On Monday, Safra Republic awarded the mandate to lead-manage the $250m millennium Yankee bond to Lehman Brothers after competitive bidding. *Reuters, São Paulo*

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Oct 7	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	03/98	6.250	101.9225	4.84	+0.13	+0.14	-0.13	-1.60
	10/07	10.000	128.4678	6.12	+0.09	+0.01	-0.35	-1.43
Austria	09/99	7.000	104.9800	4.28	-0.01	-0.02	+0.02	+0.69
	07/07	5.625	100.9900	5.49	+0.01	-0.06	-0.23	-0.54
Belgium	04/99	7.000	104.2800	4.06	-0.03	-0.06	+0.04	+0.65
	03/07	6.250	105.2200	5.52	-0.01	-0.08	-0.26	-0.56
Canada	03/99	4.000	100.2500	3.81	+0.04	-0.25	-0.29	-0.84
	06/07	7.250	112.9000	5.48	+0.01	-0.24	-0.51	-1.28
Denmark	12/99	6.000	102.6400	4.58	-0.01	-0.03	-0.04	+0.34
	11/07	7.000	108.3000	5.88	+0.01	-0.11	-0.38	-0.89
Finland	01/99	11.000	108.2770	4.11	+0.01	+0.04	-0.25	+0.29
	04/06	7.250	110.8240	5.61	+0.04	-0.06	-0.31	-0.86
France	11/99	7.000	105.6500	4.12	-0.01	+0.01	+0.05	+0.24
	10/04	6.750	109.5300	5.10	-0.01	-0.03	-0.10	-0.42
	10/07	5.500	100.5600	5.43	+0.01	+0.06	-0.16	-0.55
	10/25	6.000	99.8400	6.03	+0.01	-0.10	-0.26	-0.78
Germany	06/99	3.500	99.2400	3.97	-	-0.01	+0.05	+0.49
	07/04	6.750	109.0600	5.13	-	-0.06	-0.16	-0.47
	07/07	6.000	104.1000	5.44	-	-0.08	-0.26	-0.55
	07/27	6.500	106.0600	6.05	-0.01	-0.12	-0.33	-0.78
Ireland	04/99	6.250	101.0800	5.44	+0.02	+0.04	-0.37	-0.39
	08/06	8.000	114.0000	5.92	+0.01	-0.06	-0.38	-0.97
Italy	05/00	6.000	101.7400	5.27	-0.05	-0.03	-0.57	-2.22
	05/02	6.250	102.9600	5.51	-0.06	-0.07	-0.40	-2.26
	07/07	6.750	105.4000	6.01	-0.03	-0.09	-0.39	-2.29
	11/26	7.250	108.2300	6.61	-0.01	-0.06	-0.40	-2.11
Japan	06/99	4.800	107.2400	0.48	-0.01	-0.01	+0.04	-0.47
	12/02	4.800	117.4800	1.30	-0.04	-0.12	-0.26	-0.81
	09/05	3.000	108.9900	1.78	-0.04	-0.16	-0.32	-0.97
	03/17	3.500	113.0100	2.64	-0.04	-0.14	-0.26	-0.78
Netherlands	06/99	7.500	105.4100	4.06	-0.04	-0.05	-0.03	-0.66
	02/07	5.750	102.3300	5.42	-	-0.08	-0.23	-0.46
New Zealand	02/00	6.500	99.2830	6.82	-0.11	-0.01	-0.39	-1.00
	11/06	8.000	109.3111	6.60	-0.06	-0.01	-0.47	-1.28
Norway	01/99	9.000	105.9000	4.24	+0.06	+0.01	-0.27	-1.26
	01/07	6.750	107.8000	5.64	+0.03	-0.13	-0.35	-1.08
Portugal	03/99	8.500	104.8534	4.92	-0.02	+0.01	-0.30	-1.91
	02/07	6.625	105.1370	5.89	-0.03	-0.05	-0.39	-1.69
Spain	07/98	7.400	104.4328	4.76	-0.03	+0.05	-0.30	-1.84
	03/07	7.350	110.8524	5.82	-0.02	-0.05	-0.40	-1.93
Sweden	01/99	11.000	107.5390	4.75	-	-0.03	-0.11	-0.83
	08/07	8.000	114.7620	5.97	-0.01	-0.18	-0.58	-1.42
Switzerland	03/99	4.000	103.0800	1.77	+0.06	-0.02	+0.06	+0.11
	06/07	4.500	108.5000	3.45	+0.02	-0.08	-0.10	-0.38
UK	08/99	6.000	98.4809	6.90	+0.04	-	-0.03	-0.81
	11/04	6.750	102.0489	6.39	+0.05	-0.04	-0.59	-0.71
	12/07	7.250	106.9688	6.31	+0.03	-0.13	-0.67	-1.07
	06/21	8.000	120.3906	6.33	-	-0.21	-0.60	-1.45
US	07/99	5.875	100.3360	5.67	-0.03	-0.16	-0.29	-0.21
	05/04	7.250	107.1950	5.92	-0.03	-0.17	-0.39	-0.33
	08/07	6.125	101.3750	5.94	-0.01	-0.18	-0.41	-0.58
	08/27	6.375	101.7030	6.25	-0.01	-0.16	-0.40	-0.54
ECU	03/99	5.000	100.6600	4.49	-0.01	+0.01	+0.04	+0.30
	04/07	5.500	99.2200	5.80	-0.01	-0.11	-0.35	-0.71

London closing, New York mid day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Oct 7	Bid Yield	Spread vs Bunds	Spread vs T-Bonds		Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	6.11	-0.67	-0.17	New Zealand	6.60	+1.16	+0.66
Austria	5.49	-0.05	-0.45	Norway	5.64	+0.20	-0.30
Belgium	5.52	+0.08	-0.42	Portugal	5.89	-0.45	-0.05
Canada	5.49	+0.05	-0.45	Spain	6.82	+0.38	-0.12
Denmark	5.88	+0.44	-0.06	Sweden	5.97	+0.53	+0.03
Finland	5.61	-0.17	-0.33	Switzerland	3.45	-1.99	-2.49
France	5.43	-0.01	-0.51	UK	6.31	+0.87	-0.37
Germany	5.44	-	-0.50	US	5.94	+0.60	-
Ireland	5.92	+0.48	-0.02	ECU	5.60	+0.16	-0.34
Italy	6.01	+0.57	+0.07				
Japan	1.78	-3.66	-4.16				
Netherlands	5.42	-0.02	-0.52				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Oct 7	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
■ EUROPE								
Croatia	02/02	7.000	BBB-	98.2960	7.46	-0.17	-0.16	+1.84
Poland	07/00	7.750	BBB-	103.2737	6.40	-0.02	-0.27	+0.69
Russia	11/01	9.250	BB-	104.5304	7.61	+0.17	-0.75	+2.14
■ LATIN AMERICA								
Argentina	01/17	11.375	BB	118.3978	9.38	-0.09	-0.18	+3.16
Brazil	11/01	8.675	BB-	103.8504	7.73	-0.01	-0.25	+1.96
Mexico	01/07	9.875	BB	109.6785	8.35	-0.10	-0.58	+2.41
■ ASIA								
China	07/06	7.750	BBB+	105.5909	8.87	-0.07	-0.19	+0.95
Philippines	10/16	8.750	BB+	100.5517	8.69	-0.02	-0.23	+2.61
Thailand	04/07	7.750	A-	98.9488	7.90	-0.02	-0.36	+1.96
■ AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	103.4672	7.88	-0.01	-0.04	+1.86
South Africa	12/99	9.625	BB+	105.9915	6.62	-0.02	-0.27	-0.87
Turkey	05/02	10.000	B	105.7702	8.46	-0.01	-0.26	+2.64
■ BRADY BONDS								
Argentina	03/23	5.500	BB	77.0475	8.10	-0.07	+1.75	+1.91
Brazil	04/24	5.250	BB-	75.4965	8.16	+0.02	+1.54	+1.98
Mexico	12/19	6.250	BB	84.4812	7.72	-0.01	-0.40	+1.60
Venezuela	03/20	6.750	B+	89.2364	7.77	-0.01	-0.78	+1.63

London closing. Prices in US$. Source: Interactive Data/FT Information.
Standard & Poor's ratings.

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	100.32	100.14	-0.10	100.44	100.02	108,397	157,823
Mar	99.72	99.58	-0.06	99.78	99.58	1,067	4,307
Jun	99.36	99.36	+0.06	99.38	99.36	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Oct	Calls Nov	Calls Dec	Puts Oct	Puts Nov	Puts Dec
97	-	3.19	-	0.01	0.06	0.41
98	2.17	2.27	2.18	0.04	0.14	0.66
99	1.25	1.45	1.53	0.11	0.32	0.89
100	0.53	0.79	1.01	0.38	0.65	-
101	0.14	0.35	0.61	1.00	1.20	-

Est. vol. total, Calls 56,496 Puts 56,496. Previous day's open int., Calls 73,003 Puts 95,224.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	103.64	103.61	-0.03	103.82	103.37	221789	311938
Mar	102.90	102.84	-0.03	102.97	102.62	306	8989

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Calls Mar	Puts Nov	Puts Dec	Puts Jan	Puts Mar
10350	0.46	0.74	0.60	0.92	0.35	0.63	1.26	1.58
10400	0.22	0.49	0.43	0.72	0.61	0.88	1.59	1.88
10450	0.09	0.30	0.29	0.59	0.98	1.19	1.95	2.22

Est. vol. total, Calls 21832 Puts 18800. Previous day's open int., Calls 179844 Puts 210353

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	104.20	104.20	-0.02	104.30	104.07	130,465	229,533

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	112.32	112.75	+0.22	112.83	111.65	110273	121807
Mar	112.15	112.70	+0.22	112.15	112.15	25	1326

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
11250	1.18	1.82	0.93	1.52
11300	0.90	1.57	1.15	1.67
11350	0.69	1.33	1.44	2.13

Est. vol. total, Calls 7856 Puts 7753. Previous day's open int., Calls 107310 Puts 90205

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	104.55	104.49	-0.10	104.61	103.92	128,191	79,171

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	120-29	120-20	-0-07	120-30	120-07	66883	195978
Mar	120-19	120-16	-0-07	120-16	120-11	540	1002

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Calls Mar	Puts Nov	Puts Dec	Puts Jan	Puts Mar
120	1-15	1-47	1-60	2-29	0-39	1-07	1-24	1-57
121	0-45	1-13	1-28	1-60	1-05	1-37	1-56	2-24
122	0-24	0-52	1-02	1-35	1-48	2-12	2-30	2-63

Est. vol. total, Calls 2041 Puts 3395. Previous day's open int., Calls 60454 Puts 31380

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.18	99.08	-0.02	99.30	98.92	620	6,085

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	117-08	117-09	+0-03	117-18	115-31	371,097	686,307
Mar	117-00	117-01	+0-04	117-08	116-22	12,881	48,326
Jun	-	115-31	-	-	-	987	5,325

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	129.82			129.88	129.69	2733	na
Mar	128.76			129.73	129.66	925	na

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

US CORPORATE BONDS

Oct 6	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ UTILITIES								
Pac Bell	07/02	7.25	AA-	104.1445	6.22	-0.04	-0.38	+0.39
NY Tel	08/25	7.00	A+	98.1316	7.15	-0.03	-0.38	+0.89
CWE	05/08	8.00	BBB	108.5930	6.84	-0.05	-0.37	+0.89
■ FINANCIALS								
GECC	05/07	8.75	AAA	118.3944	6.43	-0.06	-0.41	+0.48
Banc One	08/02	7.25	A+	103.9480	6.28	-0.04	-0.41	+0.45
US West	01/07	7.50	BBB+	103.5501	6.77	-0.06	-0.35	+0.82
■ INDUSTRIALS								
WMX Tech	04/99	6.25	A-	100.3215	6.01	-0.06	-0.28	+0.35
Wal Mart	05/02	6.75	AA	102.3398	6.15	-0.05	-0.40	+0.32
Dayton Hud	06/21	8.70	BBB+	127.7769	7.23	-0.03	-0.35	+0.97
■ AGENCIES								
FHLMC	04/07	7.14	N/A	106.3969	6.23	-0.06	-0.42	+0.28
SLMA	03/00	7.50	N/A	103.7391	5.81	-0.05	-0.34	+0.08
FNMA	02/16	8.95	N/A	125.5121	6.84	-0.03	-0.39	+0.38
FFCB	06/06	8.95	N/A	116.1990	6.16	-0.06	-0.43	+0.24
■ HIGH YIELD								
Stone Cont	02/01	9.88	B	102.5000	0.00	-	-	-
AK Stl	12/01	9.13	BB-	106.1250	0.00	-	-	-
Pocaltx	06/04	10.75	B-	104.7500	0.00	-	-	-

New York closing. Source: Interactive Data/FT Information.
Standard & Poor's ratings. Yields: semi-annual basis.

US INTEREST RATES

Latest

		Treasury Bills and Bond Yields			
Prime rate	8½	One month	-	Two year	5.66
Broker loan rate	7¼	Two month	-	Three year	5.73
Fed.funds	5½	Three month	5.06	Five year	5.83
Fed.funds at intervention	-	Six month	5.21	10-year	5.95
		One year	5.36	30-year	6.26

INTERNATIONAL BONDS

Oct 7	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
■ EURO DM								
EIB	02/07	5.750	AAA	101.7200	5.50	-	-0.20	+0.06
Spain	01/07	5.750	AA	101.4300	5.54	+0.02	-0.23	+0.10
Philip Morris	03/04	5.375	A	99.3500	5.49	-	-0.14	+0.36
ABN Amro	03/06	3.625	n/a	99.6818	5.41	-	-0.22	-0.18
■ EURO FFR								
Austria	01/04	5.500	AAA	102.1000	5.10	+0.01	-0.05	+0.01
Abbey Nat	02/04	6.000	AA	104.4300	5.16	-	-0.09	+0.06
Cred Foncier	02/04	6.125	A	119.2100	5.46	-0.02	-0.10	+0.35
Abbey Nat	08/06	4.510	AAr	101.9310	4.25	-	-1.02	-1.07
■ EURO LIRA								
EIB	02/07	7.000	AAA	107.1000	5.98	-	-0.41	-0.03
Abbey Nat	02/02	6.800	AA	104.4500	5.81	-	-0.45	-0.02
Walt Disney	06/00	8.625	A	107.0000	5.73	-	-0.50	+0.42
Abbey Nat	03/07	6.000	AAr	104.6618	6.72	-0.08	-1.01	+0.71
■ EURO £								
EIB	12/07	7.625	AAA	107.6641	6.56	+0.02	-0.68	-0.25
Dresdner Bk	12/07	7.750	AA	105.6591	6.95	+0.04	-0.67	+0.64
RBS	01/07	8.375	A+	108.4099	7.10	+0.06	-0.68	+0.79
Abbey Nat	02/02	7.400	AA	99.9691	6.49	+0.05	-0.47	+0.05
■ EURO $								
EIB	04/07	7.250	AAA	106.1655	6.36	-0.04	-0.32	+0.42
ABN Amro	06/07	7.125	AA-	103.7006	6.60	-0.03	-0.36	+0.66
Quebec	01/07	7.000	A+	102.7351	6.60	+0.01	-0.82	+0.66
Citicorp	02/04	5.781	A+	100.3683	5.66	-0.01	-0.13	-0.21
■ EURO C$								
Bayer L-Bk	08/04	8.500	AAA	121.7567	5.58	+0.07	-0.47	+0.11
Toronto	05/04	8.500	AA+	115.4050	5.64	+0.06	-0.43	+0.17
Bell Canada	07/99	10.625	A+	109.6920	4.69	+0.06	-0.16	-0.11
Deutsche Bk	09/02	5.875	AAA	102.8535	5.21	+0.06	-0.35	-0.07
■ EURO YEN								
World Bank	03/02	5.250	AAA	117.7000	1.15	+0.01	-0.22	+0.03
Spain	03/02	5.750	AA	119.7000	1.16	-0.02	-0.27	+0.05
Cred Foncier	06/02	4.750	A	114.4257	1.32	-0.03	-0.21	+0.50
Italy	07/99	0.703	AA	100.6553	0.12	-0.01	+0.04	-0.36

London closing. Source: Interactive Data/FT Information
Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Tue Oct 7	Day's change %	Mon Oct 6	Accrued interest	xd adj. ytd
1 Up to 5 years (20)	120.41	-0.08	120.51	2.27	8.21
2 5-15 years (20)	160.04	-0.17	160.32	3.15	8.47
3 Over 15 years (4)	192.34	0.07	192.20	3.27	9.77
4 Irredeemables (4)	233.76	-0.59	235.14	3.97	9.50
5 All stocks (48)	152.40	-0.09	152.54	2.87	8.77
Index-linked					
6 Up to 5 years (2)	211.17	0.04	211.10	0.96	5.22
7 Over 5 years (10)	212.88	0.00	213.08	1.21	5.06
8 All stocks (12)	211.44	0.01	211.77	1.16	5.07

UK Indices

	Low coupon yield Oct 7	Oct 6	Yr. ago	Medium coupon yield Oct 7	Oct 6	Yr. ago	High coupon yield Oct 7	Oct 6	Yr. ago
5 yrs	6.41	6.36	6.83	6.55	6.49	6.89	6.56	6.53	6.95
15 yrs	6.32	6.29	7.68	6.35	6.36	7.66	6.46	6.41	7.79
20 yrs	6.32	6.29	7.81	6.36	6.36	7.77	6.46	6.41	7.82
Irred.†	6.49	6.45	7.88						

	Inflation 5% Oct 7	Oct 6	Yr. ago	Inflation 10% Oct 7	Oct 6	Yr. ago
Up to 5 yrs	3.00	3.00	2.72	2.32	2.32	2.00
Over 5 yrs	3.14	3.13	3.41	2.94	2.94	3.22

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Oct 7	Oct 6	Oct 3	Oct 2	Oct 1	Yr ago	High*	Low*
Govt. Secs. (UK)	101.43	101.53	101.83	101.00	100.67	94.9	101.83	93.31
Fixed Interest	133.54	133.39	132.90	131.58	131.03	118.27	133.54	115.32

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

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D-Mark gains against lira and yen

MARKETS REPORT

By Simon Kuper in Amsterdam and Richard Adams in London

The D-mark rose yesterday as the continuing Italian political crisis raised the prospect of Italy missing the start of European economic and monetary union.

The Communist Refoundation Party, the government ally in the Italian parliament, has said it will vote down the country's 1998 budget. Most market analysts still expect talks between the two sides to result in compromise, so the lira fell only modestly against the D-mark yesterday.

After hitting a low around L985 to the D-mark, it closed at L982.3, just L1.7 down on Monday's London close. The lira weakeoed even further against sterling, which gained nearly L10 in rising to L2,796.97.

Were Italy to miss the start of Emu, that would raise beliefs that the putative euro would be a strong currency, said Gerard Lyons, chief economist with DKB International in London.

The D-mark, which is traded as a proxy for the euro, rose against the dollar, thanks partly to the crisis in Italy. The D-Mark gained from DM1.7622 on Monday, to DM1.7539 yesterday.

The D-mark rose further against the yen, to set a six-month high when it reached Y69.84 during trading in Europe. It closed at Y69.48, a rise of 0.41.

Because of a leak the previous day, the D-mark was able to shrug off weak German unemployment figures, which showed a seasonally adjusted rise of about 30,000 in the already high jobless total. Economists said the increase occurred mainly because many subsidised jobs in Eastern German had come to an end, rather than because of a further economic slowdown.

The Bundesbank council yesterday left Germany's repo rate unchanged. However, most strategists believe that the German economic recovery will prompt a rate rise soon.

The pound also rose against the dollar after UK retail price data showed a slight rise in the annual rate of headline inflation.

The dollar advanced only fractionally against the yen eveo though Japanese shares fell sharply as the markets' view of Japan's economy grew eveo more bearish. The dollar, held back by fears of trade tensions between Tokyo and Washington, rose just 0.15 against the yen to Y121.86.

The Singapore dollar hit its worst level against the US dollar since April 1994, and closed in London at S$1.5645 – 1.65 cents weaker. Most other South East Asian currencies took a day off from their long crisis.

■ Ooe rumour in the market yesterday was that a US coovoy had been fired at in the Persian Gulf. That highlighted tbe rising tensions between the US and Iran over the former's threat to boycott compaoies which invest in the latter.

The tension has raised oil prices to about $21 a barrel. That has helped the Norwegian krone, because Norway is a leading oil exporter. The krooe stood at NKr7.042 against tbe dollar, compared with NKr7.048 on Mooday.

However, traders know that Norway's central bank has a mandate to maintain a stable currency. That stops them from sending the krone too high, for they know the bank might cut interest rates in response.

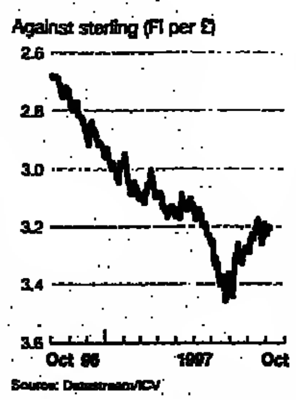
Over the last week market, Norway's domestic rates have dropped. The spread over three-month German rates is now just 30-35 basis points. Paul Meggyesi, senior currency economist at Deutsche Morgan Grenfell in London, said: "If tension abates and the oil price falls, that could leave the krone looking exposed."

■ The D-Mark's rise against the yen continued on course yesterday. Unlike the US dollar, the D-Mark has been free to make gains against the yen, unemcumbered by trade issues.

Patricia Elbaz, at MMS International in London, said the latest technical outlook for the D-Mark was a move above Y70, after yesterday's six-month intra-day high.

"The long-term charts show that the rate has broken above a key indicator, the 200-day moving average, at Y69.40," Ms Elbaz said. "A full range above that level is likely to confirm sharper D-Mark gains."

Guilder



Source: Datastream/ICV

■ **Pound in New York**

Oct 7	Latest	Prev. close
£ spot	1.6200	1.6160
1 mth	1.6178	1.6138
3 mth	1.6137	1.6100
1 yr	1.5950	1.5917

■ **OTHER CURRENCIES**

Oct 7	£	$
Czech Rp	53.2312 - 53.3137	32.7980 - 32.8380
Hungary	315.836 - 316.112	194.600 - 194.650
Iran	4872.00 - 4869.00	3000.00 - 3000.00
Kuwait	0.4936 - 0.4943	0.3041 - 0.3044
Poland	5.5247 - 5.5362	3.4040 - 3.4090
Russia	9520.52 - 9528.01	5866.00 - 5867.00
UAE	5.9611 - 5.9650	3.6729 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Oct 7		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.0387	+0.0366	283 - 491	20.0515	18.9489	18.9843	3.3	19.8716	3.3	19.3881	3.4	102.7
Belgium	(BFr)	58.7870	+0.1215	364 - 375	58.8375	58.4980	58.607	3.7	58.237	3.7	56.487	3.9	102.3
Denmark	(DKr)	10.8414	+0.018	363 - 464	10.8502	10.7918	10.8099	3.5	10.7459	3.5	10.4544	3.9	104.4
Finland	(FM)	8.5398	+0.0202	331 - 465	8.5520	8.4980	8.6145	3.6	8.4618	3.9	8.2493	3.4	81.5
France	(FFr)	9.5722	+0.0163	676 - 767	9.5814	9.5311	9.5392	4.1	9.4822	3.8	9.2067	3.9	105.4
Germany	(DM)	2.8474	+0.0051	461 - 487	2.8510	2.8323	2.838	3.9	2.818	4.0	2.7321	4.0	103.5
Greece	(Dr)	449.563	+0.751	344 - 783	450.284	447.487	451.346	-4.9	453.97	-3.9	462.338	-2.8	65.3
Ireland	(I£)	1.1094	+0.0025	080 - 108	1.1116	1.1058	1.1089	0.5	1.1075	0.7	1.0966	1.1	96.8
Italy	(L)	2796.97	+8.83	529 - 864	2811.50	2781.87	2796.9	0.0	2797.08	0.0	2792.78	0.1	76.1
Luxembourg	(LFr)	58.7870	+0.1215	364 - 375	58.8375	58.4980	58.607	3.7	58.237	3.7	56.487	3.9	102.3
Netherlands	(Fl)	3.2101	+0.0087	087 - 115	3.2115	3.1914	3.1999	3.8	3.179	3.9	3.083	4.0	101.9
Norway	(NKr)	11.4323	+0.063	259 - 386	11.4786	11.3279	11.3998	3.4	11.3388	3.3	11.0698	3.2	100.3
Portugal	(Es)	290.412	+0.533	241 - 582	290.582	288.678	290.256	0.6	289.726	0.6	285.638	1.6	92.2
Spain	(Pta)	240.518	+0.409	415 - 612	240.612	239.550	240.108	1.8	239.448	1.9	235.078	2.3	77.2
Sweden	(SKr)	12.2277	+0.0867	199 - 355	12.2584	12.1245	12.2002	2.7	12.1417	2.8	11.8852	2.8	87.2
Switzerland	(SFr)	2.3445	+0.0015	430 - 459	2.3488	2.3349	2.3336	5.6	2.311	5.7	2.2107	5.7	106.6
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	100.5
Ecu	-	1.4540	+0.0028	531 - 549	1.4549	1.4482	1.4507	2.7	1.4435	2.9	1.4085	3.1	-
SDR†	-	1.184063	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6232	+0.0105	227 - 237	1.6259	1.6144	-	-	-	-	-	-	-
Brazil	(R$)	1.7814	+0.012	808 - 820	1.7844	1.7716	-	-	-	-	-	-	-
Canada	(C$)	2.2290	+0.0174	279 - 301	2.2323	2.2165	2.2222	3.7	2.2085	3.7	2.1576	3.2	85.4
Mexico	(New Peso)	12.5756	+0.0607	636 - 876	12.5981	12.5188	-	-	-	-	-	-	-
USA	($)	1.6235	+0.0105	230 - 240	1.6263	1.6147	1.6214	1.9	1.6173	1.5	1.5998	1.5	104.9
Pacific/Middle East/Africa													
Australia	(A$)	2.2392	+0.0112	377 - 406	2.2457	2.2313	2.2355	2.0	2.2271	2.2	2.1902	2.2	91.8
Hong Kong	(HK$)	12.5591	+0.0805	544 - 638	12.5802	12.4908	12.5581	0.1	12.5517	0.2	12.4966	0.5	-
India	(Rs)	58.7302	+0.3777	715 - 888	58.7910	58.4890	58.9254	-4.0	59.326	-4.1	91.0057	-3.9	-
Israel	(Shk)	5.6605	+0.0229	536 - 874	5.6685	5.6536	-	-	-	-	-	-	-
Japan	(Y)	197.848	+1.536	730 - 966	198.130	196.590	196.828	6.2	194.803	6.2	185.813	6.1	125.8
Malaysia	(M$)	5.3170	-0.1106	072 - 267	5.4038	5.2536	5.3213	-1.0	5.3293	-0.9	5.3478	-0.6	-
New Zealand	(NZ$)	2.5338	-0.0029	320 - 355	2.5446	2.5272	2.537	-1.5	2.5408	-1.1	2.5414	-0.3	108.1
Philippines	(Peso)	57.4720	+0.8654	731 - 708	58.1292	56.8205	57.6318	-3.3	57.8813	-2.9	58.8983	-2.6	-
Saudi Arabia	(SR)	6.0890	+0.0385	869 - 910	6.0993	6.0561	6.0855	0.7	6.0771	0.8	6.0406	0.8	-
Singapore	(S$)	2.5400	+0.0432	373 - 424	2.5420	2.4889	2.5354	2.2	2.5253	2.3	2.4771	2.5	-
South Africa	(R)	7.5741	+0.0456	689 - 792	7.5834	7.5833	7.6348	-9.6	7.7527	-9.4	8.1887	-8.1	-
South Korea	(Won)	1464.69	+10.45	018 - 921	1469.21	1477.86	-	-	-	-	-	-	-
Taiwan	(T$)	46.4289	+0.3098	113 - 464	46.4464	46.2001	46.4123	0.4	46.3725	0.5	46.1748	0.5	-
Thailand	(Bt)	59.3065	+0.1918	070 - 059	59.4059	58.7320	59.6431	-6.8	60.1047	-5.4	61.1348	-3.1	-

† Rates for Oct 6. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T. The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Oct 7		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan Index
Europe													
Austria	(Sch)	12.3429	-0.0581	403 - 455	12.3790	12.2770	12.3169	2.3	12.2699	2.4	12.0459	2.4	102.3
Belgium	(BFr)	36.2100	-0.1615	900 - 300	36.3550	36.0300	36.135	2.5	35.9835	2.5	35.29	2.5	102.3
Denmark	(DKr)	6.6778	-0.0319	767 - 788	6.6985	6.6450	6.6661	2.1	6.6418	2.2	6.5354	2.1	103.6
Finland	(FM)	5.2601	-0.0219	576 - 626	5.2802	5.2301	5.2456	2.6	5.225	2.7	5.1311	2.5	80.9
France	(FFr)	5.8960	-0.0285	950 - 970	5.9152	5.8684	5.8845	2.4	5.8606	2.4	5.7518	2.4	104.9
Germany	(DM)	1.7539	-0.0083	536 - 541	1.7595	1.7445	1.7501	2.6	1.7423	2.7	1.7073	2.7	102.9
Greece	(Dr)	276.910	-1.345	860 - 960	278.900	275.380	279.205	-5.6	280.26	-4.9	287.41	-3.8	65.0
Ireland	(I£)	1.4634	+0.0062	620 - 648	1.4670	1.4570	1.4627	0.6	1.4617	0.5	1.4621	0.1	-
Italy	(L)	1722.80	-5.18	230 - 330	1731.75	1716.00	1724.57	-1.2	1727.58	-1.1	1731	-0.5	75.8
Luxembourg	(LFr)	36.2100	-0.1615	900 - 300	36.3550	36.0300	36.135	2.5	35.9835	2.5	35.29	2.5	102.3
Netherlands	(Fl)	1.9773	-0.0075	770 - 775	1.9817	1.9658	1.972	2.6	1.9646	2.6	1.9268	2.6	101.6
Norway	(NKr)	7.0418	-0.007	400 - 435	7.0690	6.9835	7.0274	2.5	6.9989	2.4	6.8872	2.2	99.7
Portugal	(Es)	178.880	-0.84	830 - 930	179.390	177.900	178.644	0.2	178.79	0.2	177.62	0.7	92.6
Spain	(Pta)	148.145	-0.715	130 - 160	148.580	147.440	148.1	0.4	147.925	0.6	146.75	0.9	76.8
Sweden	(SKr)	7.5317	+0.0045	292 - 342	7.5478	7.4949	7.5226	1.4	7.5033	1.5	7.4293	1.4	87.3
Switzerland	(SFr)	1.4441	-0.0085	436 - 445	1.4491	1.4336	1.4387	4.4	1.4281	4.4	1.3826	4.3	106.1
UK	(£)	1.6235	+0.0105	230 - 240	1.6263	1.6147	1.6214	1.6	1.6173	1.5	1.5998	1.5	99.9
Ecu	-	1.1166	+0.0051	162 - 169	1.1220	1.1133	1.118	-1.6	1.1213	-1.7	1.1368	-1.9	-
SDR†	-	0.73181	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	-	998 - 993	0.9998	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0973	+0.0003	972 - 973	1.0973	1.0971	-	-	-	-	-	-	-
Canada	(C$)	1.3730	+0.0018	727 - 732	1.3735	1.3717	1.3699	2.8	1.3641	2.6	1.3436	2.1	85.5
Mexico	(New Peso)	7.7460	-0.013	410 - 510	7.7530	7.7410	7.8545	-16.6	8.0655	-16.5	8.978	-15.9	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	105.8
Pacific/Middle East/Africa													
Australia	(A$)	1.3792	-0.0021	787 - 797	1.3819	1.3787	1.3788	0.5	1.3768	0.7	1.3694	0.9	92.9
Hong Kong	(HK$)	7.7358	-0.0007	353 - 363	7.7368	7.7353	7.7363	-0.1	7.7372	-0.1	7.7385	0.0	-
India	(Rs)	36.1750	-0.0025	500 - 000	36.2070	36.1500	36.3125	-4.6	36.5975	-4.7	37.81	-4.5	-
Israel	(Shk)	3.4866	-0.0086	834 - 898	3.4937	3.4834	-	-	-	-	-	-	-
Japan	(Y)	121.865	+0.156	830 - 900	122.050	121.700	121.35	5.1	120.35	5.0	116.05	4.8	126.9
Malaysia	(M$)	3.2750	-0.09	700 - 800	3.3450	3.2450	3.2795	-1.6	3.2885	-1.9	3.3185	-1.3	-
New Zealand	(NZ$)	1.5607	-0.012	601 - 613	1.5651	1.5601	1.5615	-0.6	1.5639	-0.9	1.574	-0.9	-
Philippines	(Peso)	35.4000	+0.305	500 - 500	36.0000	35.0000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-0.0001	504 - 506	3.7506	3.7504	3.7512	-0.2	3.7522	-0.2	3.7569	-0.2	-
Singapore	(S$)	1.5645	+0.0165	635 - 655	1.5655	1.5380	1.5628	1.3	1.559	1.4	1.5395	1.9	-
South Africa	(R)	4.6653	-0.0022	635 - 670	4.6670	4.6620	4.7058	-10.4	4.7853	-10.3	5.0878	-9.1	-
South Korea	(Won)	914.500	+0.5	000 - 000	917.700	812.000	-	-	-	-	-	-	-
Taiwan	(T$)	28.5960	+0.005	960 - 000	28.6000	28.5500	28.609	-0.5	28.613	-0.3	28.7105	-0.4	-
Thailand	(Bt)	36.5300	-0.12	800 - 800	36.8100	35.1000	36.975	-14.6	37.68	-12.6	38.91	-6.5	-

† SDR rate per $ for Oct 6. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Oct 6: Base average 1990=100. The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

October 7	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.50	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.10	-	4.75
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.75
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.75	6.25	6.02
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.50	3.00
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	½	½	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.43	5.47	5.52	5.63	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Oct 7	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German Mark	[illegible] - 3	[illegible] - 3	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible] - 5	[illegible]	[illegible]	[illegible]	[illegible] - 5	[illegible]
Sterling	[illegible] - 7	[illegible] - 7	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible] - 1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.44	96.43	-0.02	96.45	96.42	3,343	44,270
Mar	96.21	96.20	-0.01	96.22	96.19	7,953	36,374
Jun	95.98	95.95	-0.02	95.97	95.94	2,181	27,087

■ **THREE MONTH EUROMARK FUTURES** (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.44	96.45	-	96.46	96.43	21720	311988
Mar	96.21	96.21	-	96.23	96.19	29303	298082
Jun	95.97	95.96	-	95.98	95.94	34946	254840
Sep	95.78	95.76	-	95.80	95.76	18168	195847

■ **ONE MONTH EUROMARK FUTURES** (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Oct		96.77	+0.01			0	400
Nov		96.67	+0.01			0	80
Dec		96.43	-			0	1230
Jan		96.53	-			0	150

■ **THREE MONTH EUROLIRA FUTURES** (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.68	93.62	+0.02	93.65	93.63	38418	108273
Mar	94.50	94.63	+0.03	94.65	94.47	32112	102550
Jun	95.03	95.13	+0.03	95.14	94.96	28864	89109
Sep	95.15	95.22	+0.02	95.23	95.08	16394	68611

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	98.25	98.22	-0.03	98.25	98.20	10715	79180
Mar	98.07	98.05	-0.02	98.07	98.02	3073	39845
Jun	97.84	97.82	-0.02	97.84	97.79	975	26182
Sep	97.63	97.63	-0.02	97.64	97.62	97	12648

■ **THREE MONTH EUROYEN FUTURES** (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec		99.48	+0.01			0	na
Mar		99.45	-			0	na
Jun		99.41	+0.01			0	na

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.56	95.56	-	95.57	95.55	314	11593
Mar	95.49	95.50	-	95.51	95.49	376	6601
Jun	95.45	95.45	+0.01	95.46	95.44	115	5492
Sep	95.40	95.40	-	95.41	95.40	93	5432

* LIFFE futures also traded on APT

■ **EUROLIRA OPTIONS** (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9375	0.22	0.93	1.42	0.15	0.05	0.04
9400	0.10	0.71	1.13	0.28	0.08	0.05
9425	0.04	0.51	0.96	0.47	0.13	0.08

Est. vol. total, Calls 13838 Puts 11403. Previous day's open int., Calls 230080 Puts 98662

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Oct 7		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.44	16.28	4.844	1.887	4758	5.461	19.45	494.0	409.1	20.80	3.988	1.701	3.792	2.762	336.6	2.473
Denmark	(DKr)	54.22	10	8.829	2.626	1.023	2580	2.961	10.55	267.9	221.8	11.28	2.163	0.922	2.056	1.498	182.5	1.341
France	(FFr)	61.41	11.33	10	2.975	1.159	2922	3.354	11.94	303.4	251.3	12.77	2.449	1.045	2.329	1.696	206.7	1.518
Germany	(DM)	20.65	3.807	3.362	1	0.390	982.3	1.127	4.015	102.0	84.47	4.294	0.823	0.351	0.783	0.570	69.48	0.511
Ireland	(I£)	52.98	8.772	8.623	2.567	1	2521	2.894	10.30	261.8	216.8	11.02	2.113	0.901	2.009	1.463	178.3	1.311
Italy	(L)	2.102	0.388	0.342	0.102	0.040	100	0.115	0.409	10.38	8.599	0.437	0.084	0.036	0.080	0.058	7.074	0.052
Netherlands	(Fl)	18.31	3.377	2.982	0.887	0.346	871.3	1	3.561	90.47	74.92	3.809	0.730	0.312	0.694	0.506	61.63	0.453
Norway	(NKr)	51.42	9.483	8.373	2.491	0.970	2447	2.808	10	254.0	210.4	10.70	2.051	0.870	1.950	1.420	173.1	1.272
Portugal	(Es)	20.24	3.733	3.296	0.980	0.382	963.1	1.105	3.937	100	82.82	4.210	0.807	0.344	0.768	0.559	68.13	0.501
Spain	(Pta)	24.44	4.508	3.980	1.184	0.461	1163	1.335	4.753	120.7	100	5.084	0.975	0.416	0.927	0.675	82.26	0.605
Sweden	(SKr)	48.08	8.866	7.828	2.329	0.907	2287	2.625	9.350	237.5	196.7	10	1.917	0.818	1.823	1.328	161.8	1.189
Switzerland	(SFr)	25.07	4.624	4.083	1.215	0.473	1193	1.369	4.876	123.8	102.6	5.216	1	0.427	0.951	0.692	84.39	0.620
UK	(£)	58.79	10.84	9.572	2.847	1.109	2797	3.210	11.43	290.4	240.5	12.23	2.345	1	2.229	1.624	197.8	1.454
Canada	(C$)	26.37	4.864	4.294	1.277	0.498	1255	1.440	5.129	130.3	107.9	5.486	1.052	0.449	1	0.728	88.76	0.652
USA	($)	36.21	6.678	5.896	1.754	0.683	1723	1.977	7.042	178.9	148.1	7.532	1.444	0.610	1.373	1	121.9	0.896
Japan	(Y)	29.71	5.480	4.838	1.439	0.561	1414	1.623	5.778	146.8	121.9	6.180	1.186	0.505	1.127	0.821	100	0.735
Ecu	-	40.43	7.456	6.583	1.958	0.763	1924	2.208	7.863	199.7	165.4	8.410	1.612	0.688	1.533	1.117	136.1	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.5713	0.5749	+0.0035	0.5759	0.5710	16,591	59,906
Mar	0.5782	0.5782	+0.0036	0.5782	0.5768	6	2,355
Jun	-	0.5800	+0.0029	-	-	105	2,913

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6963	0.7009	+0.0044	0.7021	0.6955	14,180	39,444
Mar	0.7065	0.7073	+0.0039	0.7080	0.7065	8	1,604
Jun	-	0.7140	+0.0039	0.7140	-	4	263

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8280	0.8294	+0.0012	0.8296	0.8283	7,605	91,491
Mar	0.8391	0.8398	+0.0006	0.8392	0.8391	13	836
Jun	-	0.8510	-	-	-	1	163

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.6108	1.6202	+0.0108	1.6218	1.6088	6,600	29,144
Mar	-	1.6032	-	1.6150	-	1	237
Jun	-	1.6080	+0.0114	1.6080	-	52	27

UK INTEREST RATES

LONDON MONEY RATES

Oct 7	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7¼ - 6½	7⅛ - 7	[illegible]	[illegible]	7½ - [illegible]	[illegible]
Sterling CDs	-	-	[illegible] - 7	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible] - 7	7⅛ - 7	-	-
Bank Bills	-	-	7 - [illegible]	[illegible]	[illegible]	-
Local authority deps.	6⅞ - 6¾	7 - 6⅞	[illegible] - 7	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	7 - 6⅞	-	-	-	-

UK clearing bank base lending rate 7 per cent from Aug 7, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc. Ave. tender rate of discount on Oct 3. 6.8959pc. ECGD fixed rate Stlg. Export Finance. Make up day Sep 30, 1997. Agreed rate for period Oct 26, 1997 to Nov 25, 1997, Scheme III 8.54pc. Reference rate for period Aug 30, 1997 to Sep 30, 1997, Schemes IV & V 7.294pc. Finance House Base Rate 7½pc from Oct 1, 1997

■ **THREE MONTH STERLING FUTURES** (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.58	92.58	-	92.59	92.56	12139	124023
Mar	92.56	92.55	-0.01	92.57	92.52	12370	105577
Jun	92.57	92.57	-0.01	92.58	92.52	11927	84545
Sep	92.70	92.68	-0.03	92.70	92.66	11348	70913
Dec	92.86	92.84	-0.03	92.86	92.80	10508	01365

Also traded on APT. All Open interest figs. are for previous day

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9250	0.13	0.13	0.29	0.05	0.14	0.22
9275	0.03	0.08	0.16	0.20	0.28	0.34
9300	0	0.03	0.08	0.42	0.48	0.51

Est. vol. total, Calls 809 Puts 1914. Previous day's open int., Calls 199913 Puts 208496

EMS EUROPEAN CURRENCY UNIT RATES

Oct 7	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.798709	0.795720	+0.002601	-4.00	6.46	27
Finland	5.85424	5.88483	-0.00753	0.52	1.68	-3
Spain	163.826	165.882	-0.094	1.25	0.94	-9
Italy	1906.48	1931.44	+6.44	1.31	0.89	-9
Portugal	197.398	200.273	-0.082	1.46	0.74	-10
Denmark	7.34555	7.47642	-0.00421	1.78	0.42	-12
Netherlands	2.16979	2.21183	-0.00114	1.94	0.27	-14
Germany	1.92573	1.96367	-0.00101	1.97	0.23	-19
Austria	13.5485	13.8192	-0.0073	2.00	0.21	-15
Belgium	39.7191	40.5277	-0.0195	2.04	0.17	-15
France	6.45863	6.60127	-0.00335	2.21	0.00	-19
NON ERM MEMBERS						
Greece	295.269	310.086	-0.449	5.01	-2.67	-
UK	0.793103	0.691484	+0.000572	-12.81	17.23	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92 Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Oct	Nov	Dec	PUTS Oct	Nov	Dec
1.600	1.55	2.51	2.91	0.11	1.28	1.90
1.610	0.81	1.88	2.42	0.37	1.71	2.37
1.620	0.33	1.47	1.86	0.91	2.18	2.87

Previous day's vol., Calls 1 Puts 784. Prev. day's open int., Calls 26,359 Puts 23,517

■ **PHILADELPHIA SE DM/$ OPTIONS** DM62,500 (cents per DM)

Strike Price	CALLS Oct	Nov	Dec	PUTS Oct	Nov	Dec
0.560	1.90	1.28	1.62	0.05	0.39	0.54
0.565	0.49	1.02	1.31	0.13	0.54	0.73
0.570	0.23	0.74	1.04	0.33	0.77	0.96

Previous day's vol., Calls 510 Puts 2,140. Prev. day's open int., Calls 12,045 Puts 36,841

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.24	94.25	-	94.25	94.24	43,455	590,817
Mar	94.21	94.20	-	94.20	94.17	8,281	85,267

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	95.10	95.10	-	95.10	95.08	131	5,217
Mar	95.14	95.14	-	95.13	95.10	29	3,928

All Open interest figs. are for previous day

■ **EUROMARK OPTIONS** (LIFFE) DM1m points of 100%

Strike Price	CALLS Oct	Nov	Dec	Mar	PUTS Oct	Nov	Dec	Mar
9600	0.45	0.45	0.48	0.28	0	0.01	0.01	0.07
9625	0.21	0.21	0.23	0.11	0.01	0.01	0.03	0.15
9650	0.01	0.03	0.03	0.06	0.06	0.08	0.10	0.32
9675	0	0	0.01	0.01	0.30	0.30	0.31	0.55
9700	0	0	0	0	0.55	0.55	0.55	0.79

Est. vol. total, Calls 8120 Puts 7690. Previous day's open int., Calls 272386 Puts 314787

■ **EURO SWISS FRANC OPTIONS** (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9825	0.14	0.16	0.14	0.17	0.38	0.57
9850	0.04	0.06	0.07	0.32	0.51	0.75

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 3125 Puts 2718

BASE LENDING RATES

	%		%		%
Adam & Company	7.00	Exeter Trust Limited	8.00	●Singer & Friedlander	7.00
Allied Irish Bank (GB)	7.00	Financial & Gen Bank	8.00	●Smith & Williamson Secs	7.00
●Henry Ansbacher	7.00	●Robert Fleming & Co	7.00	Sun Banking Corp Ltd	7.00
Banco Bilbao Vizcaya	7.00	●Guinness Mahon	7.00	TSB	7.00
Bank of Cyprus	7.00	Habib Bank AG Zurich	7.00	United Bank of Kuwait	7.00
Bank of Ireland	7.00	●Hambros Bank	7.00	Unity Trust Bank Plc	7.00
Bank of India	7.00	Heritable & Gen Inv Bk	7.00	Whiteaway Laidlaw	7.00
Bank of Scotland	7.00	C. Hoare & Co	7.00	Yorkshire Bank	7.00
Barclays Bank	7.00	Hongkong & Shanghai	7.00		
Brit Bk of Mid East	7.00	Investec Bank (UK) Ltd	7.00		
●Brown Shipley & Co Ltd	7.00	Julian Hodge Bank	7.00		
Citibank NA	7.00	●Leopold Joseph & Sons	7.00		
Clydesdale Bank	7.00	Lloyds Bank	7.00		
The Co-operative Bank	7.00	Midland Bank	7.00		
Coutts & Co	7.00	NatWestminster	7.00		
Cyprus Popular Bank	7.00	●Rea Brothers	7.00		
Duncan Lawrie	7.00	Royal Bk of Scotland	7.00		
		Scottish Widows Bank	7.00		

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LEGAL NOTICES

LEGAL NOTICES

COMMODITIES AND AGRICULTURE

Renewed Middle East tension rattles oil

MARKETS REPORT

By Robert Corzine, Nikki Tait and Kenneth Gooding

Oil markets were rattled by reports of renewed tensions in the Middle East and the possible impact of a United Nations report critical of Iraq's compliance with international inspectors investigating the exteot of its programme to build weapons of mass destruction.

The troubling reports from the region helped to steady the price of Brent Blend for November delivery, which on Monday tumbled by 77 cents to $20.84 a barrel.

At one stage Brent showed renewed strength, although it drifted lower in late trading on London's International Petroleum Exchange, when it was quoted at about $20.72 a barrel.

Crude oil futures clawed back some of Monday's losses on the New York Mercantile Exchange, amid continued worries that heightened tensions in the Middle East could affect supplies. The near-term November contract had recouped about 7 cents by midday, to $22.00 a barrel, while the February contract was 13 cents higher at $21.58.

Corn futures rose strongly yesterday morning on the Chicago Board of Trade, amid rumours that the Chinese government would stop exporting old-crop corn – at least temporarily – because such trade was no longer profitable. By midday, the December contract was 5.4 cents higher at 273.2 cents a bushel.

This bullish trend was also reinforced by an increase in soyabean prices, with the November contract gaining around 13 cents, to 660.4 cents a bushel, and the March contract adding a similar amount, to 669.4 cents. Analysts said the rally was largely technical, coupled with a lack of significant selling interest.

Trading on the London Metal Exchange was very quiet ahead of the highlight of the metal world's year, the LME's annual dinner last night. "People are just playing around this afternoon. There is not really that much interest and most people are away from their desks," a ring dealer said.

Few noticed a relatively bearish view of the copper market expressed by Dough Yearley, chairman of Phelps Dodge, the biggest US producer of the metal. While demand for copper was growing at an annual 3 per cent, he said, supply this year would be up by 5 per cent, followed by a 6 per cent increase in 1998 and one of 4 per cent in 1999.

Independent directors to join LME

By Kenneth Gooding, Mining Correspondent

The London Metal Exchange is responding to widespread criticism about the composition of its board by recruiting two more independent directors with no previous connection with any metals bnsiness. They are Lord Fraser of Camyllie QC and Sir Tim Lankester.

Lord Fraser was UK minister for energy at the Department of Trade and Industry in the Tory government and recently was director of the Think Twice campaign against Scottish devolntion. He is also a director of the International Patroleum Exchange.

Sir Tim, an academic economist, served at the International Monetary Fund, the World Bank and the UK Treasury. He was permanent secretary at the Department of Edncation before becoming director of the School of Oriental Studies at the University of London.

During the inquiry into the LME last year after the Sumitomo copper scandal, nearly every respondent to the Securities and Investments Board questionnaire raised concerns about the governance of the exchange, in particular the composition of the board, which is made up of broker members.

This year the LME added to the hoard Art Miele of Phelps Dodge, the biggest US copper producer, and John Pizzey of the Aluminum Company of America, the world's biggest aluminium producer.

Announcing at the LME's annual dinner last night that Lord Fraser and Sir Tim would shortly join the board, Lord Bagri, chairman, said their presence would ease the burden for "our two hardworking independent directors", Phillip Crowson, who retired recently as chief economist at Rio Tinto, the world's biggeet mining group, and Kit Farrow, a former Bank of England official who is now director-general of the London Investment Bankers' Association.

Lord Bagri also revealed that the LME is shortly to appoint an executive director of corporate affairs and an executive director responsible for regulation and compliance.

● Lord Bagri said there had been an "unbealthy increase in market aberrations" during the past 12 months, when there had been squeezes in the copper, aluminium and zinc markets.

"Excessive volatility, especially engineered to create sbort-term aberrations, is very damaging to our market and its users by limiting the capacity of legitimate traders to bedge, causes great concern to those who use the LME's reference prices and creates excessive regulatory, commercial and moral burdens for the exchange," he said.

He promised that changes being made to the LME's reporting systema and improvements in transparency "are one important line of defence against market abuse". However, the LME was only one part of a global metals market and "the co-operation between regulators from different jurisdictions is not yet adequate and comprehensive enough to eliminate totally systematic market abuse".

Lord Bagri also hoped a new UK Financial Services Act would make the LME better placed to have some control over big users of the exchange who were non-members, such as Sumitomo, as well as over-the-counter business.

Report warns on coffee volatility

By Alison Maitland

The extreme volatility that was seen in coffee futures three years ago could recur if financial institutions return to the market to try to repeat gains of as much as $910m, industry representatives were told yesterday.

A report delivered at the F.O. Licht's world coffee conference in London said the extraordinary rise in futures in 1994 was different from typical coffee market speculation.

Speculation in commodities bad originated from financial institutions and other investors diversifying out of falling bond and equity markets at that time, said Professor Christopber Gilbert and Celso Brunetti, of London university's Queen Mary and Westfield colleges in the report.

The coffee market was the most dramatic performer among commodities, witb prices trebling, they said.

The gains to large speculators were estimated in the report at between $630m and $910m on the New York coffee market in the second and third quarters of 1994 alone.

"The financial institutions who did very well out of coffee in 1994 will continue to monitor this and other primary markets," said tbe authors of the report.

They warned that coffee could again become exceptionally volatile, although renewed interest from the funds did not appear "imminently likely".

The report said several factors led to the market'e rise in 1993 and early 1994, which was sharply extended following the mid-1994 frosts in Brazil.

The "retention scheme" agreed in mid-1993 by producing countries to shore up prices by withholding exports had an impact that year.

"But the effects of retention were entirely associated with the announcement of the scheme and not with retention itself," the report found. Tbe effects were already anticipated in prices around the time the scheme was announced.

With New York the main focus for speculation and the London International Financial Futures Exchange more of a bedging market, the report said volatility in London would tend to increase wben hedgers bad departed from normal levels of cover and were anxious to return to them.

"The rise in coffee volatility was primarily due to the attempt by over-sold hedgers to close out their positions against the background of a rapidly tightening market."

Palm oil push by Indonesia

Lower costs are giving growers the chance to catch Malaysia

The thick smoke blanketing many parts of south-east Asia does not obscure fundamental changes taking place in the world's palm oil industry. In fact, it is evidence of a new fnture being forged.

The belief that Malaysia, the world's top producer of crude palm oil, is losing its competitive edge to Indonesia, the second-largest prodncer, has precipitated a rush by Malaysian plantation companies to put down roots in their near neighbour.

Some 27 large Malaysian companies bad agreed to joint ventures with Indonesian counterparts by March this year, when Jakarta shut the door on foreign plantation investments.

The new joint ventures plan to develop about 1.5m bectares, compared with a total existing area of oil palm groves in Indonesia of 2.2m hectares.

The fires billowing smoke from the rainforests of Sumatra and Kalimantan, the Indonesian part of Borneo island, were started primarily by Malaysian and Indonesian plantation companies. The economic incentives for forest clearing are powerful.

The average cost of producing one tonne of crude palm oil in Malaysia is roughly US$250 but in Indonesia it is US$150, plantation analysts say.

Many observers predict Indonesia will supplant Malaysia – which is beset by shortages of labour and suitable land – as the world's top producer in the first few years of next century.

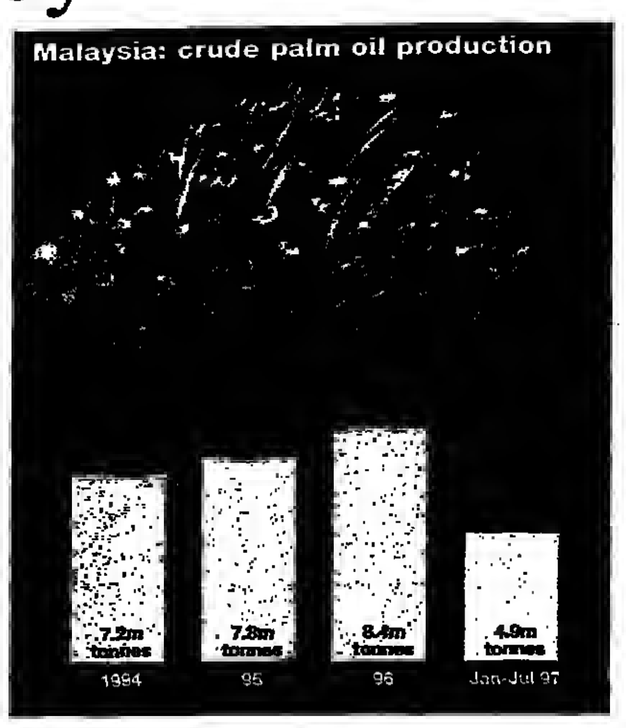
The imperative to plant in Indonesia is hardened by the fact that several plantation companies have plans for imminent stock market listings, executives say.

They are keen to convince potential shareholders that an earnings etream is assured through plantation expansion.

But corporate ambition aside, more ephemeral forces are at work and have caused a recent surge in crude palm oil prices to record levels in local currency terms.

The El Niño weather effect, which normally lasts between 12 and 15 months, has already brought drought to some parts of Indonesia and appears to be the cause of dry spells in Malaysia.

The dryness has exacerbated tbe forest fires and looks set to cut yields from oil palms; female flowers, from which the fruit grows, tend to blossom less often when moisture levels fall.



Greg Feldberg, plantations analyst at ABN Amro Hoare Govett in Kuala Lumpur, forecasts that the lower yields could persist for a year ur two from 1998. The result, Mr Feldberg says, will be to raise palm oil prices and plantation company profits.

Indeed, ABN Amro Hoare Govett this week raised its estimate for the average price of crude palm oil in 1998 from US$500 to US$520 a tonne. Taking into account the fact that the ringgit, Malaysia's currency, has depreciated 25 per cent against the US dollar since July, the predicted US dollar price rise would generate very attractive returns for local plantation companies.

The pall of smog could also exert a direct inflnence on yields. One plantation owner in Indonesia says the ripening of fruit could be delayed by the smoke blotting out the sun.

James Kynge and Sander Thoenes

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1635.5-36.5	1642-43
Previous	1651.5-2.5	1659-60
High/low		1663/1637
AM Official	1645-46	1648-49
Kerb close		1645-46
Open int.	n/a	
Total daily turnover	n/a	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1435-45	1460-70
Previous	1440-50	1470-75
High/low		1470/1465
AM Official	1430-40	1460-70
Kerb close		1463-67
Open int.	n/a	
Total daily turnover	n/a	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	598.5-99.5	612-13
Previous	595.5-6.5	609-10
High/low		616/609
AM Official	599-600	609-10
Kerb close		609-10
Open int.	n/a	
Total daily turnover	n/a	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	6545-55	6650-60
Previous	6585-95	6690-700
High/low		6670/6620
AM Official	6540-45	6645-50
Kerb close		6635-45
Open int.	n/a	
Total daily turnover	n/a	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5750-55	5780-85
Previous	5745-55	5780-90
High/low		5830/5780
AM Official	5755-65	5790-95
Kerb close		5780-90
Open int.	n/a	
Total daily turnover	n/a	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1296-97	1309-10
Previous	1293-5	1307-9
High/low		1317/1300
AM Official	1295-96	1308-09
Kerb close		1307-08
Open int.	n/a	
Total daily turnover	n/a	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2052-54	2078-80
Previous	2083-4	2108-10
High/low		2090/2069
AM Official	2047-48	2076-77
Kerb close		2083-84
Open int.	n/a	
Total daily turnover	n/a	

■ LME AM Official £/$ rate: 1.6245
LME Closing £/$ rate: 1.6235

Spot: 1.6204 3 mths: 1.6142 6 mths: 1.6074 9 mths: 1.6013

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	93.70	+0.35	94.00	92.30	679	1,302
Nov	94.40	+0.55	94.40	94.40	210	2,445
Dec	94.85	+0.55	95.40	93.30	5,232	28,133
Jan	95.15	+0.45	95.15	93.90	18	1,075
Feb	95.55	+0.35	95.10	94.30	24	1,129
Mar	95.56	+0.40	96.00	94.40	464	5,174
Total					6,913	51,610

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	331.40-331.90		
Opening	331.40-331.70		
Morning fix	331.50	204.693	479.515
Afternoon fix	331.95	204.176	477.610
Day's High	332.00-332.30		
Day's Low	330.70-331.00		
Previous close	332.10-332.60		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.72	6 months	2.77
2 months	2.73	12 months	2.95
3 months	2.66		

Silver Fix	p/troy oz.	US cts equiv.
Spot	319.15	518.10
3 months	322.80	522.00
6 months	326.45	525.85
1 year	333.80	533.60

Gold Coins	$ price	£ equiv.
Krugerrand	331-333	204-205
Maple Leaf	n/a	n/a
New Sovereign	77-79	47-49

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	331.0	-1.3	331.0	330.6	25	189
Nov	331.8	-1.3	-	-	1	-
Dec	333.3	-1.3	334.9	332.8	17,306	98,079
Feb	334.5	-1.4	336.0	334.2	172	21,795
Apr	336.1	-1.4	337.0	336.0	26	5,920
Jun	337.9	-1.5	339.0	338.2	25	9,926
Total					17,763	182,358

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	427.4	+4.2	429.0	423.0	143	875
Jan	427.4	+4.2	430.5	422.5	761	12,383
Apr	420.4	+4.7	422.5	416.5	56	841
Jul	416.4	+4.7	-	-	1	4
Total					960	13,796

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	198.75	+4.00	199.00	194.50	187	3,333
Mar	194.75	+4.00	-	-	-	338
Jun	194.25	+4.00	-	-	1	109
Total					187	3,780

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	516.2	-0.5	-	-	2	1
Nov	518.4	-0.5	-	-	-	1
Dec	520.2	-0.5	524.0	516.0	9,767	73,659
Jan	521.6	-0.5	-	-	1	22
Mar	526.5	-0.5	529.0	524.0	254	17,213
May	529.7	-0.5	530.0	530.0	0	3,206
Total					10,121	103,834

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	22.05	+0.12	22.27	21.80	63,045	99,738
Dec	21.98	+0.14	22.20	21.75	30,586	87,843
Jan	21.83	+0.18	21.95	21.63	14,028	43,852
Feb	21.63	+0.18	21.75	21.40	4,660	25,117
Mar	21.40	+0.13	21.44	21.27	2,934	14,257
Apr	21.15	+0.06	21.20	21.10	817	11,014
Total					121,176	436,097

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	20.67	+0.03	20.85	20.50	18,327	55,650
Dec	20.62	+0.12	20.78	20.44	11,653	46,306
Jan	20.53	+0.16	20.60	20.28	2,978	30,754
Feb	20.36	+0.18	20.45	20.13	2,399	12,277
Mar	20.22	+0.22	20.23	19.95	344	5,336
Apr	20.10	+0.30	20.10	19.84	210	2,536
Total					34,858	166,922

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	59.95	+0.26	60.35	59.10	20,497	50,990
Dec	60.95	+0.27	61.35	60.55	9,305	34,376
Jan	61.40	+0.27	61.75	61.10	3,391	22,202
Feb	61.45	+0.22	61.90	61.44	1,288	11,215
Mar	60.40	+0.27	60.60	60.25	814	7,298
Apr	58.74	+0.71	-	-	125	4,962
Total					35,728	144,935

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	184.50	-0.50	187.00	182.25	7,689	17,356
Nov	186.50	-	188.00	184.00	8,003	32,244
Dec	187.50	-0.50	189.25	185.50	2,875	18,062
Jan	188.75	-0.50	190.50	167.00	1,221	15,105
Feb	188.50	-0.50	189.00	186.50	1,130	7,536
Mar	185.25	-0.75	186.00	183.75	95	5,096
Total					24,604	108,936

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	12.930	-0.020	-	-	-	1,270
Dec	15.630	-	15.650	15.630	30	1,360
Total					306	11,575

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	2.920	-0.059	2.980	2.860	26,815	51,453
Dec	3.020	-0.054	3.070	2.985	8,303	34,189
Jan	2.995	-0.038	3.030	2.930	6,073	28,387
Feb	2.670	-0.047	2.730	2.650	1,771	19,052
Mar	2.450	-0.120	2.510	2.450	833	12,817
Apr	2.245	-0.110	2.270	2.240	320	7,967
Total					47,183	232,837

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	61.45	+0.15	62.00	61.00	18,173	42,127
Dec	61.25	+0.31	61.60	60.70	7,002	16,102
Jan	61.10	+0.26	61.50	60.60	3,563	15,233
Feb	61.20	+0.26	61.20	60.85	1,639	5,403
Mar	61.30	+0.01	61.30	61.30	2,743	5,761
Apr	64.20	+0.51	64.20	64.10	203	3,415
Total					31,891	96,867

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	87.10	-0.60	87.70	87.05	90	2,420
Jan	89.00	-0.60	89.45	88.85	148	2,869
Mar	91.00	-0.60	91.25	90.85	165	2,664
May	93.00	-0.60	93.45	92.75	160	1,773
Jul	96.00	-0.60	-	-	-	146
Total					563	9,872

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	365.75	+10.50	367.50	354.00	8,828	64,703
Mar	379.00	+10.50	380.00	368.00	2,056	26,405
May	386.00	+9.25	387.00	375.50	420	5,272
Jul	389.00	+10.25	389.50	377.00	362	11,498
Sep	391.00	+5.00	391.00	385.00	12	72
Dec	402.00	+8.50	402.00	392.00	39	2,961
Total					11,717	110,996

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	279.75	+12.00	279.75	267.00	45,205	199,861
Mar	288.50	+12.00	288.50	276.00	10,000	67,531
May	294.25	+12.00	294.25	281.75	1,909	16,009
Jul	297.75	+11.25	298.25	285.25	3,464	30,719
Sep	289.75	+11.00	289.50	278.75	27	2,162
Dec	287.00	+9.25	297.75	278.00	1,649	18,003
Total					62,266	337,586

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	80.15	-1.10	60.90	80.60	113	1,095
Jan	82.65	-0.85	83.40	83.10	107	866
Mar	84.65	-0.65	-	-	-	340
May	86.25	-0.75	-	-	-	23
Total					220	2,330

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	664.00	+16.50	673.00	645.25	36,280	97,807
Jan	666.50	+17.25	674.50	647.00	9,423	33,341
Mar	673.50	+17.00	681.00	656.00	2,673	15,995
May	679.50	+16.75	685.00	662.75	1,493	13,790
Jul	685.75	+17.50	692.00	667.00	3,086	12,445
Aug	682.00	+12.50	684.50	669.00	20	381
Total					45,254	178,005

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	24.04	+0.03	24.35	23.73	1,050	2,769
Dec	24.32	-0.02	24.69	24.00	11,026	54,728
Jan	24.50	-0.08	24.88	24.27	2,874	18,749
Mar	24.68	-0.09	25.08	24.48	2,362	11,061
May	24.78	-0.03	25.20	24.56	403	7,557
Jul	24.91	+0.05	25.25	24.60	544	6,651
Total					18,298	103,825

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	215.4	+7.4	215.6	206.8	5,745	10,567
Dec	211.0	+7.4	211.7	202.6	12,839	43,860
Jan	210.0	+7.5	211.0	202.0	2,195	16,771
Mar	206.5	+6.4	208.0	200.0	3,312	15,404
May	205.5	+6.0	206.8	199.0	742	15,895
Jul	208.2	+6.2	209.0	201.7	1,121	8,052
Total					26,253	114,775

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	61.0	-	-	-	-	7
Mar	81.0	-3.0	-	-	-	-
Apr	101.0	-3.0	103.1	100.0	47	1,024
May	116.0	-3.0	-	-	-	22
Jun	126.0	-3.0	-	-	-	-
Total					47	1,053

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	1400	+20	1405	1375	146	1,104
Nov	1490	+24	1490	1485	6	362
Dec	1495	+15	1495	1475	7	17
Jan	1500	+10	1500	1478	37	588
Apr	1505	+15	1500	1485	20	187
Total					223	2,288

	Close	Prev
BFI	1282	1287

PULP AND PAPER

■ PULPEX OMLX ($6; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	600.00	-1.00	600.00	599.50	11	297
Mar	617.00	-2.00	617.00	617.00	20	192
Total					51	524

FUTURES DATA
All futures data supplied by CMS.

Minor metals
European free market, from Metal Bulletin. $ per lb in warehouse, unless otherwise stated (last week's in brackets, where changed). **Antimony:** 99.65%, $ per tonne, 1,880-1,920. **Bismuth:** min. 99.99%, tonne lots 3.30-3.50. **Cadmium:** min. 99.95%, cents a pound, 40.00-50.00. **Cobalt:** MB free market, min. 99.8%, 23.25-24.00 (23.80-24.80); min. 99.3%, 18.60-10.30 (20.00-20.60). **Mercury:** min. 99.99%, $ per 76 lb flask, 140-150. **Molybdenum:** drummed molybdic oxide, 4.10-4.25 (4.25-4.40). **Selenium:** min 99.5%, 2.00-3.00. **Tungsten ore:** standard min. 65%, $ per tonne unit (10kg) WO_3, CIF, 40-45.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1145	+9	1149	1134	1,988	47,796
Mar	1165	+8	1169	1156	1,132	52,331
May	1181	+8	1184	1176	161	23,041
Jul	1196	+8	1201	1191	107	9,087
Sep	1212	+9	1213	1207	383	13,701
Dec	1224	+8	1224	1218	326	15,651
Total					4,399	178,911

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1725	+32	1739	1698	2,301	43,768
Mar	1755	+33	1762	1732	778	24,529
May	1773	+35	1778	1752	157	11,955
Jul	1791	+33	1800	1774	135	3,756
Sep	1807	+33	1787	1786	106	4,738
Dec	1823	+33	1801	1783	120	9,062
Total					3,622	109,099

■ COCOA (ICCO) (SDR's/tonne)

	Price	Prev. day
Oct 6		
Daily	1304.32	1308.45

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	1642	-17	1651	1625	1,373	15,205
Jan	1656	-23	1675	1642	1,303	11,862
Mar	1662	-22	1682	1652	578	5,713
May	1672	-21	1683	1660	78	1,236
Jul	1682	-21	-	-	-	302
Sep	1687	-21	-	-	-	197
Total					3,332	34,515

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	162.15	-7.80	170.70	159.00	5,937	12,355
Mar	148.50	-7.45	156.00	148.00	1,539	6,860
May	143.50	-6.50	150.00	144.00	205	2,088
Jul	138.25	-6.25	142.50	138.00	45	2,182
Sep	133.25	-5.75	136.00	134.00	23	604
Dec	128.50	-5.50	135.00	130.00	4	390
Total					7,753	24,479

■ COFFEE (ICO) (US cents/pound)

		Prev. day
Oct 0		
Comp. daily	129.76	126.93
15 day average	127.41	127.41

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	301.5	-1.5	303.3	301.3	1,161	10,310
Mar	309.0	-1.5	310.8	308.6	1,473	13,622
May	313.5	-1.9	314.0	313.0	674	3,194
Aug	316.2	-1.6	317.5	315.7	85	1,915
Oct	312.0	-1.3	-	-	-	2,927
Dec	310.8	-1.0	-	-	-	124
Total					3,383	32,102

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	11.79	-0.02	11.86	11.77	0,476	92,557
May	11.82	-	11.85	11.77	581	22,629
Jul	11.69	+0.02	11.72	11.62	571	17,943
Oct	11.68	+0.03	11.67	11.61	442	14,562
Mar	11.58	-	11.58	11.55	12	3,106
May	11.53	-	11.50	11.50	10	22,629
Total					11,082	161,048

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	68.55	-0.05	69.20	68.20	8	20
Dec	71.18	+0.17	71.40	70.00	6,122	50,684
Mar	72.80	+0.09	72.80	72.36	1,864	15,018
May	73.45	+0.08	73.50	73.20	549	7,924
Jul	74.23	+0.15	74.40	73.85	596	6,966
Oct	75.07	+0.40	75.00	75.00	76	769
Total					9,338	90,248

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	73.55	-1.00	74.55	73.25	2,193	17,857
Jan	76.50	-1.00	71.75	76.10	737	11,151
Mar	79.40	-1.05	80.50	79.25	229	7,178
May	82.15	-1.05	83.20	82.35	32	1,737
Jul	84.90	-0.95	85.80	84.80	5	734
Sep	86.90	-0.95	-	-	-	274
Total					3,196	39,019

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Oct 6	Oct 3	month ago	year ago
1687.3	1680.3	1937.7	1894.8

■ CRB Futures (Base: 1967 = 100)

Oct 3	Oct 2	month ago	year ago
245.16	246.16	-	-

■ GSCI Spot (Base: 1970 = 100)

Oct 3	Oct 2	month ago	year ago
202.82	207.54	194.25	204.15

LME WAREHOUSE STOCKS (tonnes)

Aluminium	+3,300	to	735,350
Aluminium alloy	-60	to	49,560
Copper	-225	to	338,525
Lead	-50	to	120,550
Nickel	+906	to	61,998
Zinc	+3,425	to	444,225
Tin	-120	to	11,225

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Oct	66.325	-0.075	66.525	65.525	4,569	11,182
Dec	66.225	-0.450	66.750	65.450	6,136	43,447
Feb	69.050	-0.675	69.675	68.400	2,375	17,570
Apr	72.150	-0.475	72.625	71.625	692	11,349
Jun	69.075	-0.500	69.600	68.800	422	7,195
Aug	68.750	-0.400	69.150	68.750	215	2,709
Total					14,432	94,324

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Oct	68.675	-	68.700	68.125	2,863	7,610
Dec	62.775	-0.225	63.250	62.400	5,059	17,576
Feb	62.350	-0.300	62.650	61.800	926	6,006
Apr	59.275	-0.300	59.550	59.050	163	2,079
Jun	64.775	-0.400	65.400	64.775	24	1,431
Jul	63.550	-0.375	64.000	63.750	23	830
Total					9,085	38,098

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	62.600	-0.375	63.200	61.750	1,403	6,016
Mar	62.600	-0.375	63.100	61.700	62	626
May	64.325	-0.475	64.600	63.600	13	130
Jul	64.950	-0.550	64.500	64.500	2	95
Aug	64.900	-	-	-	-	12
Total					1,483	6,901

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Oct	Jan	Oct	Jan
1500	n/a	-	-	-
1600	n/a	-	-	-
1700	n/a	-	-	-
■ COPPER (Grade A) LME	**Oct**	**Jan**	**Oct**	**Jan**
2000	n/a	-	-	-
2100	n/a	-	-	-
2200	n/a	-	-	-
■ COFFEE LIFFE	**Nov**	**Jan**	**Nov**	**Jan**
1600	65	141	23	85
1650	38	115	46	109
1700	22	96	80	140
■ COCOA LIFFE	**Dec**	**Mar**	**Dec**	**Mar**
1000	148	182	3	17
1025	126	162	6	22
1050	105	144	10	29
■ BRENT CRUDE IPE	**Nov**	**Dec**	**Nov**	**Dec**
2000	87	-	18	-
2050	56	78	33	-
2100	31	68	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$19.42-9.60w	-0.185
Brent Blend (dated)	$20.68-0.70	-0.420
Brent Blend (Nov)	$20.68-0.70	-0.320
W.T.I.	$21.93-1.98w	-0.315

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$208-210	
Gas Oil	$189-191	+2
Heavy Fuel Oil	$98-100	
Naphtha	$205-207	-1
Jet fuel	$204-205	
Diesel	$196-199	+2.5

■ NATURAL GAS (Pence/therm)

Bacton (Nov)	12.90-12.975	-0.0375

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

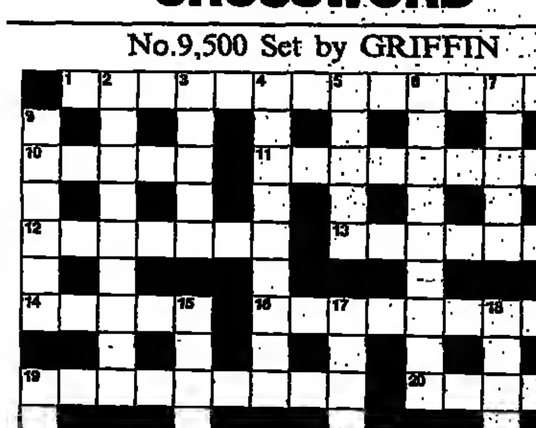
Gold (per troy oz)‡	$331.65	-0.70
Silver (per troy oz)‡	521.00c	-1.00
Platinum (per troy oz.)	$425.00	+1.00
Palladium (per troy oz.)	$195.00	+1.00
Copper	100.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	16.13r	
Tin (New York)	269.5	-1.0
Cattle (live weight)	98.35p	+0.93*
Sheep (live weight)	103.60p	-4.94*
Pigs (live weight)†	75.85p	-5.99*
Lon. day sugar (raw)	$276.40	-3.10
Lon. day sugar (wte)	$300.10	-2.40
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Oct)♥	58.50p	
Rubber (Nov)♥	58.50p	
Rubber (KL RSS No1)	294.5z	+1.5
Coconut Oil (Phil)§	635.0z	-5.0
Palm Oil (Malay.)§	540.0z	-10.0
Copra (Phil)§	$403.0z	-12.0
Soyabeans (US)	213.0	+2.0
Cotton Outlook'A' index	79.50c	
Wooltops (64s Super)	428p	-8

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Sep/Oct. z Oct/Nov. w Nov. ♥London Physical. § CIF Rotterdam. ‡ Bullion market close. * Change on week. †Based on 2,752 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,500 Set by GRIFFIN



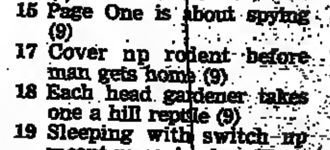
ACROSS

1 Studying Gateshead girls may improve one's looks: (7,7)
10 Alter design on the ball (5)
11 Go round without a murmur, finding fault (9)
12 Unfamiliar wine can be found in Wales (7)
13 Shivering fit and ague causes tiredness (7)
14 Article is in the engineers' lift (5)
16 Roast aunt cooked for a space traveller (9)
19 Paid about a dollar to come back, said pair vanish (9)
20 Wanting to work out, loves running (5)
22 Rent fabric to be used when sky-diving? (7)
25 OK, come down around mid-afternoon (7)
27 Opinion of a friend taken round Paris, perhaps (9)
28 Trying to find a 12 inch ruler (5)
29 Time to stop and change part of driving test (5,5,4)

DOWN

2 I weed less, which could be a bloomer! (9)
3 One races into a party just the same (5)
4 When dark horse frightens one off? (9)
5 After midnight a bird gets hoarse! (5)
6 Bird lost as bar gets broken (9)
7 Be suspended after opening Southampton branch (5)
8 Advise new guests to go around third of August (7)
9 Outlaw name on royal flag (6)
15 Page One is about spying (9)
17 Cover np rodent before man gets home (9)
18 Each head gardener takes one a hill reptile (9)
19 Sleeping with switch np meant removing key (7)
21 50% off when exhaust is undamaged (6)
23 Father gets by with a set of questions (5)
24 Dance in hospital ward is condemned (5)
26 Somehow cook tripe, for instance, in it (5)

Solution 9,499



FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Asset Management (Bermuda) Ltd

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

Royal Bk of Canada O/S Fd Mgrs Ltd
PO Box 246, St Peter Port, Guernsey 01481 723021

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

Singer & Friedlander Inv Funds Ltd - Contd.

Eagle Star European Life Assurance Co Ltd

Edgehill Select Group

Egerton Capital European Fund Plc

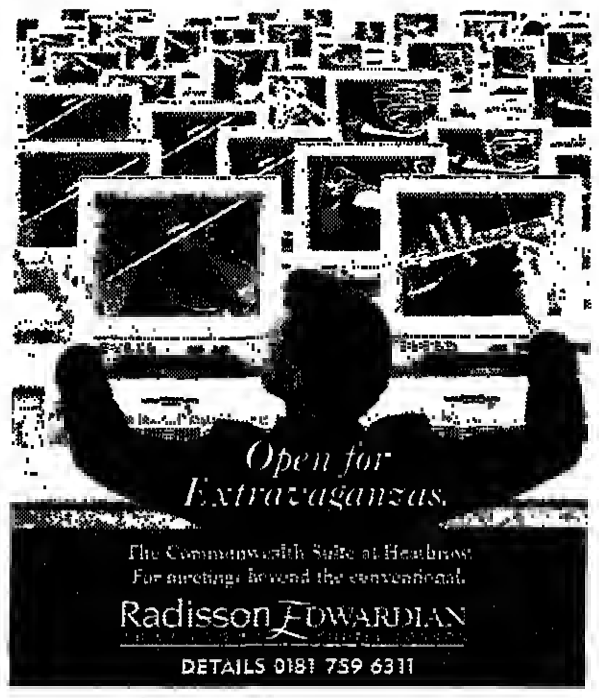
ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)



Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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OFFSHORE INSURANCES

LUXEMBOURG (REGULATED)(**)

هكذا من الأصل

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Royal Life International

BNP

Daiwa APT Japan Fund

Daiwa Int'l Capital Management (H.K.) Ltd

Julius Baer Bank & Trust Co Ltd

Darier Hentsch Fund Management SA

Banca Sdig. S.A. (Principality of Andorra)

Banco do Brasil-BB Fund

Delta Managed Funds Limited

Deltec Panamerica Trust Company Ltd

Global Asset Management - Contd.

The International Investor

INVESCO Asia Ltd

INVESCO Asset Management

INVESCO France

Investors Fund Services (Ireland) Ltd

The Jaguar Fund N.V.

MPFC Overseas Limited

McGinnis Global Fund Ltd

Magnum Funds

ORIENT Growth Fd

Oriental Development Company Ltd

Orion Capital Advisors Ltd

Oryx Fund Ltd

Oryx (India) Fund Ltd

Oryx International Growth Fund Ltd

The Osprey Group Of Funds

Oxford Strategic Fund

Selective Assets Series Fund Limited

Shizumi Investment Mngmt (Bermuda) Ltd

Sistra Fund Ltd

Sloane Robinson Investment Mngmt Ltd

Smith Barney Funds

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq		493	+8½	508	407½	5,127	5.5	14.8
Bulmer (HP)		427½	+2½	525	375	225.7	4.2	11.9
Burn St Dist		45		82	40½	26.7	9.8	♦
Greenalls A		975		1040	775	132.6	1.7	24.1
B		1075	-5	1140	970	49.0	8.8	53.1
Grand Met		589½	+1½	601	425½	12,438	3.2	18.9
Guinness		595½	+3½	627	431	11,085	3.3	16.1
Highland		284½		390	284	379.5	3.7	13.3
5½pc Cnv Bds		37½	-½	101½	85½	42.0	0.6	-
Kirin Y		500½	-15¼	699	468½	5,266	1.2	-
Matthew Clark		285½		358	213	235.4	11.3	7.9
Merrydown		98		114½	52½	8.43	9.6	14.8
Seagram C$		£21½	-¼	£25½	£17¼	5,856	1.4	-

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

Approved by the Inland Revenue

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

[illegible]

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind R		£23½		*£27¾	£20¼	1,800	3.1	Φ
Barlow	♣†	727½	-7½	897	655	1,456	2.0	15.0
Gold Flds Prop R	†	149	-4	197	122	14.3	6.2	10.8
SA Brews		£18¾		£23¾	£13¾	5,428	2.1	Φ
Standard Bank		£27¾	+¼	£30	£21	3,287	2.0	Φ
Tiger Oats	†	900		1100	780	1,374	2.0	11.5
Tongaat-Hulett		700½	-4½	799	676¼	736.3	2.5	Φ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield includes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997.
K Yield based on prospectus or other official estimates for 1998
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
N Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £3425 a year for each security shown, subject to the Editor's discretion

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Comprehensive 10-18 page report available on this company, containing key news stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements.
Company Focus (FT news) £8.45.
Focus Plus (FT and Investors Chronicle news) £10.95.
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FT Cityline

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An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.
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LONDON STOCK EXCHANGE

Footsie manages to cling on to 5,300 level

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

After ooe day of mild profit-taking, London's equity market moved back on to the huy tack yesterday, jousting with new records in the morning session.

Loodoo's performance was all the more impressive given the uncertain showing hy gilts, which slipped away in mid-session in a belated response to the September inflation report.

That showed headline inflatioo up 0.5 per ceot on the mooth for an annual rate of 3.6 per cent and core inflation rising 2.7 per cent over the 12 mooths, slightly higher than consensus forecasts.

Dealers said the inflation figures would not cause too many worries for the monetary policy committee which will announce its decisioo on whether to change UK Interest rates at noon on Thursday.

With gilts looking tired and only a handful of corporate news items on the ageoda, it was Wall Street's latest muscle-flexing that was the main catalyst for London's early advance.

The Dow Jooes Industrial Average followed up Mouday's storming performance with a choppy opening display yesterday.

Oo Mooday, the Dow pushed up 61 points, its fourth consecutive rise, hringing the average to within 160 points of its all-time high, reached on August 6.

Early uncertaioty oo Wall Street gave way to a fresh bout of optimism regarding US stocks. The Dow posted a 44-point gain an hour after London closed for the day, helped hy good corporate news.

The FTSE 100 index ended with a 5.6 gain at 5,305.6, well below the session high of 5,340.5. That figure pierced the previous closing high, 5,330.8, hut fell well short of the all-time intra-day record of 5,367.3.

The second-line stocks held up well all day, the FTSE 250 index finishing 8.6 ahead at 4,876.0, having hit a day's best of 4,880.4, less than four points off its intra-day record.

The FTSE SmallCap's game of catch-up continued yesterday, with that index, which has underperformed the market since the middle of last year, creeping ever higher and closing up 6.8 at 2,371.6, tantalisingly close to its previous closing high, 2,374.2, and its intra-day peak of 2,375.2. The FTSE All-Share index settled 3.2 up at 2,483.45.

Marketmakers conceded that they were increasingly trying to avoid taking on hig positions in the market, ahead of the October 20 shift to order-driven trading. "We're trying desperately to stay with flat books," said one dealer.

Tha bead of trading at one hig European securities house concurred with that view. "Some in the market are still being caught out hy erratic moves and they will increasingly try to avoid large lines of stock. In the background, the market still feels fine running up to Big Bang mark two."

Turnover at the 6pm mark leapt to 961.4m shares, a figure hugely inflated hy a single trade of 192m, said to have been the 11.5 per cent stake in Signet, the jewellery retailing group, held hy Credit Suisse First Boston.

Indices and ratios

FTSE 100	5305.6	+5.6	FT 30	3402.0	+4.1
FTSE 250	4876.0	+8.6	FTSE Non-Fins p/e	20.77	20.74
FTSE 350	2544.7	+3.0	FTSE 100 Fut Dec	5387.0	+16.0
FTSE All-Share	2483.45	+3.20	10 yr Gilt yield	6.39	6.36
FTSE All-Share yield	3.14	3.14	Long gilt/equity yld ratio	2.06	2.04

Best performing sectors

1 Property +1.5
2 Transport +1.3
3 Household Goods +1.1
4 Food Producers +0.9
5 Life Assurance +0.9

Worst performing sectors

1 Paper: Pckg −0.6
2 Banks: Retail −0.5
3 Extractive Inds −0.5
4 Pharmaceuticals −0.4
5 Engineering: Vehicles −0.3

US broker boost for Zeneca

By Peter John, Alexander Stevenson and Martin Brice

Zeneca managed to avoid the overall weakness among leaders in the pharmaceuticals sector as Salomon Brothers published a positive recommendation on the stock.

The US hroker has released a hefty review of the company in which it points out that the shares have been virtually flat all year, while its peers Glaxo Wellcome and SmithKline Beecham have enjoyed 20 per cent rises.

Salomon has raised its price target for the stock from £21 to £23 in anticipation of a strong nine-month sales statement at the end of the month and, more significantly, a positive research and development presentation later in the year.

The market also latched on to some comments hy Fritz Gerber, the departing chief executive of Roche of Switzerland. Mr Gerber had spoken about the strong cash flow resulting from the recent $11bn acquisitioo of Boehringer Mannheim and the possibility of future opportunities. Some dealers immediately revived old speculation of Zeneca as a takeover target. The shares were marked up 36½ to £21.19.

Pearson, the media coonglomerate which owns the Financial Times, rose to a new high on a mixture of rumour and recommendation.

NatWest Securities reiterated its "add" recommendation on the stock and raised its valuation on the shares from 830p to 880p. Merrill Lynch was also recommending the shares, having seot a positive note to institutional clients late last week.

Stories circulating around the market focused on the potential outcome of a hriefing to analysts scheduled for yesterday afternooo.

The hriefing was to provide more detail on Pearson's recent acqulsition of All American, the Los Angeles-based television production company that specialises in game shows. There were hopes that the company might give hints about disposals, because of its perceived need to reduce gearing.

Press speculation

There has heen revived press speculation that Pearson might signal its intention to dispose of its 50 per cent stake in Lazard Partners, the private partnership with interests in the three Lazard houses. There are also hopes that the company might sooo sell its residual stake in BSkyB, as indicated by Marjorie Scardino, the chief executive.

Some dealers pointed out that the company had settled its problems at the US arm of Penguin books and the final undisclosed hit might have heen substantially lower than the £100m charge origioally taken against profits. The shares ended up 25½ at 824p.

Courtaulds Textiles fell 9½ to 359p following falls in the share price of M&S, one of its higgest customers.

There were also rumours that the textile group might be on the acquisition trail. Some sector specialists suggested it might have Claremont Garments – another M&S supplier – in its sights. However, Claremont shares were unresponsive, holding steady at 95p.

Marks & Spencer shed 16½ to 647½p to make it the higgest faller in the FTSE 100 after UBS reiterated its preference for GUS, up 14 to 718½p and Next, up 11½ to 739½p. The hroker remains a "holder" of all three stocks.

Strong interim results from **JJB Sports** powered the shares up 5 to 504p although a note of pessimism was injected hy some analysts who pointed out that the secood half produced a slowdown in like-for-like sales.

Hopes that **P&O** would gain approval from the EU for its cross-Channel merger with Stena Line yesterday led to the shares gaining 17½ to 697½p, the third-higgest rise in the Footsie. There was talk that negotiations hetween P&O and the EU were coming to a close but no announcement was made before the end of the trading day. The stock was also helped hy positive sentiment for property issues, since the company plans to float its Bovis Homes unit.

The property sector swam against the tide and put in a strong performance yesterday, helped hy the expectation that the monetary policy committee would not increase interest rates this week. Land Securities rose 20½ to £10.55, and British Land gained 14½ to 703½p, both appearing near the top of the list of Footsie risers.

British Telecommunications was again the most heavily traded stock. The shares dipped 7 to 451½p on volume of 33m amid fears that it could still try to push on with its merger with MCI, despite the counter-hid from WorldCom of the US. There was also heavy trading in the options market where the equivalent of 13m shares were traded.

Blne Circle, which has underperformed the FTSE All-Share index hy 25 per cent in the past year, hounced 6 to 376p in volume of 5m, one of the stock's dozen husiest days of the past year. One European house is said to have told clients that the shares have fallen to an attractive level, and should be bought at this price.

Rolls-Royce surrendered 4½ to 238p, adding to its underperformance during the past year. Over that period, it has lagged the Footsie hy about 30 per cent, partly on bearish fears that it may be losing mooey on its aerospace activities.

However, Martin Smith at Flemings has puhlished a note that focused on aerospace margins and told clients: "The bearish assumption of zero margins on new civil deliveries is not justified."

A note from NatWest Markets focused attention on the engineering sector. John Pearson at the broker told clients: "Decisions on strategy and capital allocation are the principal drivers of value."

He prefers companies able to grow in core husinesses, such as TI Gronp, which rose 1½ to 672p, or those that can release value via a restructuring, such as BAe, which advanced 40½ to £17.92, also helped by hopes of European defence industry consolidation.

Barclays recovered 12½ to £16.92½ with some marketmakers suggesting, once again, that it was poised to sell some of its BZW investment arm to Commerzbank of Germany.

Shell Transport lifted 3 to 483p, as Merrill Lynch reiterated its support for the stock.

Building materials group **Caradon** paid 200p each for 8m shares, as part of a share buy-back. The shares firmed to 199½p.

A Japanese deal helped **Victrex**, the speciality chemicals company, lift 13½ to 240p.

FT 30 INDEX

	Oct 7	Oct 6	Oct 3	Oct 2	Oct 1	Yr ago	*High	*Low
FT 30	3402.0	3397.9	3407.3	3378.6	3395.1	2848.4	3407.3	2668.8
Ord. div. yield	3.31	3.32	3.31	3.34	3.33	3.97	4.22	3.31
P/E ratio net	22.20	22.18	22.18	22.00	22.11	17.38	22.20	15.80
P/E ratio nil	21.90	21.67	21.88	21.70	21.81	17.23	21.90	15.71

FT 30 since compilation: high 3407.3 03/10/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
3406.4	3414.2	3424.5	3425.4	3420.2	3417.6	3411.3	3396.2	3398.8	3429.8	3389.7

	Oct 7	Oct 6	Oct 3	Oct 2	Oct 1	Yr ago
SEAQ bargains	48,716	52,266	56,108	61,317	62,769	43,580
Equity turnover (£m)†	-	3213.5	3241.2	3601.3	3267.8	1747.2
Equity bargains†	-	51,045	55,986	61,791	63,879	41,236
Shares traded (m)†	-	867.5	932.2	966.8	880.5	606.7

†Excluding intra-market and overseas turnover but including Crest turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	839	Total Highs	252	Total contracts	54,422
Total Falls	730	Total Lows	68	Calls	26,749
Same	1,489			Puts	27,673

Oct 7 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	5391.0	5387.0	+16.0	5441.0	5335.0	10685	70790
Mar		5435.0	+18.0			0	1988

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec		4920.0	+8.0			0	8653

■ FTSE 100 INDEX OPTION (LIFFE) (*5300) £10 per full index point

[illegible]

Calls 2,423 Puts 2,879

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	5175		5225		5275		5325	
	C	P	C	P	C	P	C	P
Oct	189	23½	140	34	165	49	75	68½
Nov	263½	77½	228	91½	194½	108	164	127
Dec	311½	103	277½	118	245½	135	215½	154½
Mar			385	183			325½	210½
Jun†			472	213			410½	246½

Calls 4,739 Puts 18,706 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
*	F.P.	461.2	180½	152½	Aggreko	176½		W3.5	2.0	2.5	24.7
–	F.P.	0.74	17½	16½	†Buckland Inv	17½		–	–	–	–
–	F.P.	0.08	12	8	†Buckland Inv Wt	10		–	–	–	–
–	F.P.	4.05	3¼	3	†Cambury Inv	3	−¼	–	–	–	–
–	F.P.	1.12	1½	½	†Cambury Inv Wts	1¼		–	–	–	–
–	F.P.	132.7	174	162½	Creative Publish	164½	−8	LW7.0	1.4	5.3	16.7
100	F.P.	8.43	155	109½	†Computerland UK	140½		M1.45	4.8	1.3	21.0
§134	F.P.	7.08	147½	134½	†I S Solutions	147½	+5	–	–	–	49.9
155	F.P.	17.5	178½	162½	Latchways	174½		–	–	–	–
§115	F.P.	14.4	147½	140	†NSB Retail Sys	147½		L1.15	1.8	1.0	57.3
*	F.P.	2,100	478½	450	Northern Rock	473	+3½	L9.05	2.8	2.4	18.7
§245	F.P.	143.2	268½	245	SHL Group	268½		LW4.5	–	2.1	–

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

[illegible]

North America (12) 1534.86 −2.1 1568.85 1568.48 0.88 56.98 1639.77 1244.28

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Oct 7	Day's chge%	Oct 6	Oct 3	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5305.6	+0.1	5300.0	5330.8	4035.8	3.07	2.62	2.09	19.76	128.84	2282.01
FTSE 250	4876.0	+0.2	4867.4	4883.9	4435.3	3.44	2.81	1.76	20.45	123.40	2053.22
FTSE 250 ex IT	4887.1	+0.2	4879.1	4895.6	4468.8	3.57	2.92	1.82	19.29	127.97	2064.60
FTSE 350	2544.7	+0.1	2541.7	2555.3	2006.1	3.14	2.57	2.00	19.90	61.59	2235.77
FTSE 350 ex IT	2545.9	+0.1	2544.0	2557.8	–	3.16	2.58	2.01	19.67	29.54	1147.68
FTSE 350 Higher Yield	2465.0	+0.2	2460.0	2471.2	1908.5	4.17	3.46	1.81	16.58	76.19	1841.96
FTSE 350 Lower Yield	2628.4	—	2628.0	2643.7	2110.9	2.29	1.85	2.29	23.87	47.16	1884.55
FTSE SmallCap	2371.64	+0.3	2364.85	2360.76	2177.22	3.11	2.50	1.81	24.93	53.62	2026.46
FTSE SmallCap ex IT	2349.12	+0.3	2341.41	2336.05	2169.87	3.36	2.70	1.88	22.14	57.98	2027.92
FTSE All-Share	2483.45	+0.1	2480.25	2492.41	1976.82	3.14	2.57	1.98	20.16	59.78	2214.36
FTSE All-Share ex IT	2486.58	+0.1	2483.46	2495.84	–	3.17	2.60	1.99	19.79	28.99	1140.54

■ FTSE Actuaries Industry Sectors

	Oct 7	Day's chge%	Oct 6	Oct 3	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(20)	5194.80	+0.1	5187.87	5202.56	3693.07	2.99	2.37	1.85	22.58	128.15	2345.17
12 Extractive Industries(5)	4102.25	−0.5	4122.04	4171.11	4224.53	3.45	2.44	1.89	19.28	139.84	1264.41
15 Oil, Integrated(3)	5617.48	+0.3	5602.34	5610.11	4149.50	3.07	2.48	1.82	22.35	137.84	2608.08
16 Oil Exploration & Prod(12)	3880.33	−0.2	3887.86	3887.57	2976.49	1.48	1.22	2.32	38.56	52.19	2368.59
20 GEN INDUSTRIALS(258)	2182.42	+0.3	2176.94	2185.69	2102.44	3.60	3.02	1.85	17.85	59.53	1257.97
21 Building & Construction(35)	1416.69	+0.6	1408.82	1412.22	1212.82	3.23	2.60	2.29	16.92	38.34	1244.18
22 Building Matls & Merchs(30)	1861.68	+0.7	1849.45	1862.27	1998.06	4.28	3.47	1.89	15.54	57.17	992.21
23 Chemicals(25)	2724.52	−0.1	2726.07	2742.20	2622.47	3.73	3.10	1.64	20.48	73.41	1366.81
[illegible]											

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	5307.1	[illegible]									
FTSE 250	4869.1	[illegible]									
FTSE 350	2544.8	[illegible]									
FTSE SmallCap	2366.54	[illegible]									
FTSE All-Share	2483.04	[illegible]									

Further information is available on http://www.ftse.com.

† Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks Yesterday

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Oct 7 / Sch)

BELGIUM/LUXEMBOURG (Oct 7 / Frs.)

CZECH REP (Oct 7 / Korona)

DENMARK (Oct 7 / Kr)

FINLAND (Oct 7 / Mk)

FRANCE (Oct 7 / Frs.)

GERMANY (Oct 7 / Dm.)

GREECE (Oct 7 / Drachma)

ITALY (Oct 7 / Lira)

NETHERLANDS (Oct 7 / Fls.)

NORWAY (Oct 7 / Kroner)

POLAND (Oct 7 / Zloty)

PORTUGAL (Oct 7 / Escudo)

SPAIN (Oct 7 / Pts.)

SWEDEN (Oct 7 / Kronor)

SWITZERLAND (Oct 7 / Frs.)

TURKEY (Oct 7 / Tk Lira)

PACIFIC

JAPAN (Oct 7 / Yen)

AUSTRALIA (Oct 7 / Aus$)

HONG KONG (Oct 7 / H.K.$)

INDONESIA (Oct 7 / Rupiah)

MALAYSIA (Oct 7 / MYR)

NEW ZEALAND (Oct 7 / NZ $)

SINGAPORE (Oct 7 / S$)

SOUTH KOREA (Oct 7 / Won)

TAIWAN (Oct 7 / TW $)

THAILAND (Oct 7 / Baht)

AFRICA

SOUTH AFRICA (Oct 7 / Rand)

NORTH AMERICA

CANADA

TORONTO (Oct 7 / Can $)

4 pm close

MONTREAL (Oct 7 / Can $)

4 pm close

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY OCTOBER 6 1997 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY OCTOBER 3 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	235.77	-0.5	216.72	181.39	218.00	216.61	0.1	3.53	236.90	217.86	183.08	217.07	216.34	243.87	208.22	209.26
Austria (24)	212.83	-0.4	195.63	163.74	194.98	194.89	-0.4	1.68	213.59	196.43	165.07	195.71	195.62	213.59	175.14	181.09
Belgium (28)	257.52	0.4	236.71	198.12	235.93	230.96	0.3	2.99	256.61	235.99	198.31	235.13	230.22	261.11	215.57	218.92
Brazil (30)	302.62	0.7	278.16	232.81	277.24	611.05	0.7	1.20	300.57	276.42	232.29	275.41	606.65	322.44	178.94	186.28
Canada (123)	232.07	1.2	213.32	178.54	212.61	230.42	1.1	1.64	229.35	210.92	177.25	210.15	227.80	232.07	174.29	174.29
Denmark (32)	427.20	-0.3	392.69	328.67	391.38	389.85	-0.3	1.31	428.36	393.94	331.04	392.50	390.89	428.36	324.98	324.98
Finland (26)	344.57	0.1	316.73	265.09	315.68	381.96	0.1	1.44	344.13	316.48	265.95	315.33	381.73	344.57	211.71	220.60
France (83)	245.05	-0.5	225.25	188.52	224.50	227.73	-0.5	2.32	246.23	226.44	190.29	225.62	228.77	248.23	197.65	198.51
Germany (59)	240.54	0.7	221.11	185.06	220.37	220.37	0.7	1.30	238.82	219.63	184.57	218.83	218.83	240.54	178.69	179.04
Hong Kong, China (66)	507.05	-2.3	466.08	390.09	464.53	503.63	-2.3	3.06	516.79	477.10	400.93	475.37	515.39	580.03	439.65	451.73
Indonesia (27)	117.56	-1.9	108.06	90.45	107.70	268.65	0.4	2.52	119.84	110.21	92.61	109.81	267.60	254.90	117.56	211.01
Ireland (17)	393.57	0.0	361.77	302.79	360.56	360.59	-0.2	2.54	393.39	361.78	304.02	360.47	361.53	393.57	303.65	308.26
Italy (53)	109.73	-0.7	100.87	84.42	100.53	141.61	-0.6	1.68	110.46	101.59	85.37	101.22	142.43	115.27	75.44	79.65
Japan (484)	119.80	1.4	110.12	92.16	109.75	92.16	0.9	0.86	118.18	108.68	91.33	108.29	91.33	145.08	107.57	144.18
Malaysia (107)	277.73	-1.0	255.28	213.67	254.44	359.92	-0.9	1.98	280.54	257.99	216.80	257.05	363.30	660.85	277.73	578.71
Mexico (27)	1879.21	-0.2	1727.37	1445.76	1721.69	15941.89	-0.1	1.52	1882.63	1731.35	1454.93	1725.05	15956.54	1898.64	1136.59	1289.25
Netherlands (19)	439.58	-0.2	404.07	338.19	402.72	398.21	-0.3	2.10	440.67	405.26	340.56	403.78	399.28	440.67	306.31	306.31
New Zealand (14)	93.19	-0.3	85.66	71.70	85.38	77.83	0.5	3.94	93.50	85.99	72.26	85.68	77.47	96.47	83.03	87.56
Norway (41)	364.14	0.0	334.71	280.15	333.60	348.39	0.2	1.76	364.11	334.85	281.39	333.64	347.68	364.14	258.57	258.57
Philippines (22)	90.43	-3.5	83.12	69.57	82.85	158.16	-3.0	1.34	93.68	86.14	72.38	85.82	163.13	214.07	90.43	199.22
Singapore (42)	283.77	-2.2	260.84	218.31	259.97	202.43	-1.8	1.56	290.19	266.87	224.26	265.90	206.21	448.01	283.77	392.28
South Africa (43)	336.69	0.5	309.49	259.03	308.46	343.48	0.4	2.48	335.13	308.20	259.00	307.08	342.04	370.12	301.49	351.35
Spain (33)	270.75	-2.0	248.87	208.30	248.04	305.33	-2.0	2.20	276.25	254.05	213.49	253.12	311.50	277.33	182.12	182.93
Sweden (46)	534.58	-0.4	491.39	411.28	489.75	595.69	-0.4	1.73	536.80	493.66	414.85	491.87	598.26	536.80	387.12	367.12
Switzerland (33)	328.46	-0.6	300.08	251.16	299.08	293.99	-0.5	1.13	328.40	302.01	253.79	300.91	295.48	329.59	231.69	247.44
Thailand (39)	40.69	-3.1	37.59	31.46	37.47	58.17	-2.4	4.77	42.21	38.82	32.62	38.67	59.63	130.92	37.40	130.92
United Kingdom (218)	335.50	-0.5	308.39	259.12	307.37	308.39	-0.6	3.22	337.20	310.10	260.59	308.98	310.10	337.20	252.17	253.24
USA (634)	395.72	0.7	363.74	304.44	362.54	395.72	0.7	1.57	392.90	361.24	303.58	359.92	392.90	395.72	282.92	285.87
Americas (814)	362.19	0.8	332.93	278.65	331.82	304.94	0.8	1.56	359.48	330.60	277.82	329.39	302.66	362.16	259.03	261.54
Europe (712)	295.04	-0.3	271.20	226.99	270.30	276.04	-0.3	2.29	296.06	272.27	228.80	271.28	279.02	296.06	220.39	221.19
Nordic (150)	462.27	-0.3	424.92	355.64	423.50	452.80	-0.3	1.63	463.49	426.25	358.20	424.70	453.69	463.49	330.75	330.75
Pacific Basin (877)	135.34	0.7	124.40	104.12	123.99	105.38	0.4	1.38	134.46	123.65	103.91	123.20	104.99	160.96	127.18	159.28
Euro-Pacific (1589)	201.98	0.0	185.66	155.39	185.05	170.12	-0.1	1.93	201.90	185.67	156.03	185.00	170.24	209.12	173.55	184.94
North America (757)	385.54	0.8	354.48	296.69	353.80	384.72	0.6	1.57	382.71	351.96	295.77	350.66	381.80	385.64	276.41	279.08
Europe Ex. UK (499)	266.39	-0.2	244.87	204.95	244.05	254.82	-0.2	1.76	267.07	245.61	206.39	244.71	255.49	267.07	198.34	198.95
Pacific Ex. Japan (393)	270.55	-1.5	248.69	208.14	247.56	254.41	-1.3	3.01	274.79	252.70	212.36	251.79	257.68	320.65	260.02	294.21
World Ex. US (1812)	206.86	0.1	190.16	159.16	189.53	177.64	0.0	1.91	206.65	190.04	159.70	189.35	177.82	212.89	176.94	186.89
World Ex. UK (2233)	260.90	0.5	239.82	200.72	239.02	233.59	0.5	1.57	259.54	238.69	200.58	237.61	232.50	262.69	211.16	214.41
World Ex. Japan (1962)	341.81	0.3	314.19	262.97	313.15	333.73	0.3	1.89	340.91	313.51	263.46	312.37	332.61	341.81	255.37	257.15
The World Index (2446)	267.27	0.4	245.68	205.62	244.86	240.40	0.4	1.74	266.16	244.77	205.69	243.88	239.53	267.27	218.05	217.77

Emerging markets: IFC Investable indices

Dollar terms

Oct 6 Market		Day's % chg	% Chg since 31/12/96
Latin America			
Argentina	1,250.81	-0.2	+31.8
Brazil	618.15	+0.6	+58.0
Chile	767.45	-0.7	+22.8
Colombia[1]	881.75	-0.3	+39.3
Mexico	827.08	-0.1	+58.1
Peru[2]	260.82	-1.6	+27.5
Venezuela[3]	1,131.38	-0.8	+53.4
East Asia			
China[4]	82.49	-4.7	+11.9
Korea[5]	69.22	+1.8	-10.4
Philippines	136.67	-3.4	-53.5
Taiwan, China[6]	162.50	-2.8	+6.0
South Asia			
India[7]	95.12	+0.3	+20.7
Indonesia[8]	65.94	-2.3	-48.3
Malaysia	157.58	-0.8	-53.2
Pakistan[9]	279.28	-0.8	+42.7
Sri Lanka[10]	132.86	+0.4	+39.2
Thailand	101.16	-2.0	-54.9
Europe/Mideast/Africa			
Czech Rep	55.85	+0.4	-6.4
Egypt	105.14		-
Greece	367.63	+0.1	+64.1
Hungary[11]	297.57	-0.5	+51.2
Israel	130.22	+1.5	+30.2
Jordan	222.06	-0.8	+18.9
Morocco	131.32	+0.3	-
Poland[12]	723.19	-2.8	-1.2
Portugal	208.29	-0.8	+42.5
Russia	210.24	+0.2	-
S Africa[13]	224.03	+0.4	+7.4
Slovakia	103.36	+1.1	-
Turkey[14]	298.15	+3.1	+100.5
Zimbabwe[15]	332.22	-0.1	+13.4
Regions			
Composite	306.09	-0.3	+3.8
Latin America	708.79	-0.0	+46.6
Asia	161.21	-1.5	-39.2
EMEA	170.16	+0.6	+26.7

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

Latest indices were unavailable for this edition.

Prices supplied by Telekurs, part of FT Information.

4 pm close October 7

NEW YORK STOCK EXCHANGE PRICES

- X - Y - Z -

1997 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]	51½	Xerox	1.28	1.5	22	5825	[illegible]	84	[illegible]	[illegible]
[illegible]	40½	Xtra Corp	0.68	1.4	32	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
20	[illegible]	Yankee Egy	1.34	6.7	14	73	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	York Int	0.48	1.1	14	[illegible]	45	[illegible]	[illegible]	[illegible]
[illegible]	4	Zapata	0.28	2.3	60	218	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	ZenithEl				[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Zenith Nat	1.00	3.5	17	66	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Zenix Inc	0.76	8.2		120	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	17¾	Zeto	0.12	0.4	20	209	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	ZweigFd	1.32	9.8		1076	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	8	Zweig Tot	0.84	8.8		682	[illegible]	[illegible]	[illegible]	[illegible]

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sh-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
§ Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Oct 6	Oct 3	Oct 2	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	8100.22	8038.58	8027.53	8259.31 (6/8)	6391.69 (11/4)	8259.31 (6/8/97)	41.22 (8/7/32)
Home Bonds	104.52	104.43	104.34	104.70 (31/7)	101.09 (14/4)	104.70 (31/7/97)	54.99 (1/10/81)
Transport	3249.95	3207.79	3227.79	3249.95 (6/10)	2222.07 (2/1)	3249.95 (6/10/97)	13.23 (8/7/32)
Utilities	244.23	242.81	243.74	244.23 (6/10)	209.47 (25/4)	258.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 8160.63 (8183.22) Low 8017.71 (7987.89) (Theoretical)
Day's high 8109.30 (8144.42) Low 8039.56 (7956.07) (Actual)

Standard and Poors	Oct 6	Oct 3	Oct 2	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	972.69	965.03	960.46	972.69 (6/10)	737.81 (2/1)	972.69 (6/10/97)	4.40 (1/6/32)
Industrials¶	1134.09	1126.19	1122.83	1134.09 (6/10)	865.42 (11/4)	1134.09 (6/10/97)	3.62 (30/6/32)
Financial¶	116.04	115.48	113.58	116.94 (6/10)	80.75 (2/1)	116.94 (6/10/97)	7.13 (4/9/74)
Others							
NYSE Comp.	509.70	505.69	503.43	509.70 (6/10)	389.47 (11/4)	509.70 (6/10/97)	4.64 (25/4/42)
Amex Comp	716.80	709.92	704.96	716.80 (6/10)	541.20 (28/4)	716.80 (6/10/97)	524.20 (16/7/96)
NASDAQ Cmp	1721.91	1715.87	1702.41	1721.91 (6/10)	1201.00 (2/4)	1721.91 (6/10/97)	54.87 (3/10/74)
Russell 2000	461.70	459.52	458.94	461.70 (6/10)	335.85 (25/4)	461.70 (6/10/97)	123.36 (7/12/93)

RATIOS

	Oct 3	Sep 26	Sep 19	Year ago
Dow Jones Ind. Div. Yield	1.66	1.68	1.67	2.15
	Oct 1	Sep 24	Sep 17	Year ago
S & P Ind. Div. yield	1.48	1.50	1.50	1.95
S & P Ind. P/E ratio	25.72	25.42	25.37	22.74

US DATA

MARKET ACTIVITY

● Volume (million)

	Oct 6	Oct 3	Oct 2
NYSE	499.029	626.621	476.078
Amex	31.773	32.986	23.884
NASDAQ	730.754	776.676	714.341

NYSE	Oct 6	Oct 3	Oct 2
Issues Traded	3,399	3,416	3,394
Rises	1,800	1,840	1,657
Falls	1,102	1,089	1,169
Unchanged	497	487	568
New Highs	409	641	362
New Lows	9	6	12

NYSE TRADING ACTIVITY — Volume : 502,770,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Silicon Grph	71,390,500	18	−8½
La Quinta	8,977,000	18¼	−4⅛
Occdntl Pete	5,973,900	29⅝	+2⅝
Digital Eqpt	4,486,900	48⅝	+3½
Boeing	4,424,300	52⅛	+⅞
Micron Tch	4,115,000	34⅞	+1⅛
Compaq Cmp	3,954,400	75⅝	−⅛
Pharm Upjohn	3,949,800	34⅝	−⅛
Chrysler	3,869,000	35¼	−⅛
AT & T	3,486,600	43⅞	+⅛

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Contl Home	32⅛	+3⅜	+11.2
Nova Corp	30	+3	+10.9
Occdntl Pete	29⅝	+2⅝	+10.1
Coast Svgs	58⅞	+4⅝	+9.0
Downs			
La Quinta	18¼	−4⅛	−71.3
AG Edwards	35⅛	−3⅛	−8.3
Westmore	24¼	−2	−1.6
Cons Cigar	40⅛	−3⅛	−7.4

NASDAQ TRADING ACTIVITY — Volume :730,754,000

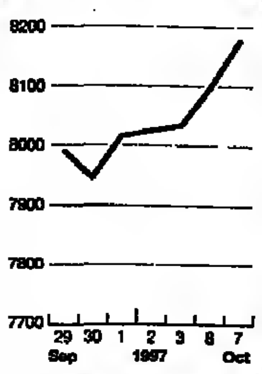
ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
MCI Comms	16,368,300	35⅛	−⅛
Worldcom	10,922,200	37⅛	−⅞
Kulicke Sof	10,579,900	98	−8⅝
Intel	9,912,000	93½	+⅛
Three Comm	8,931,800	54⅛	+3⅜
Cisco Sys	8,234,800	78⅛	+1⅛
Scopus Tch	1,099,600	71⅝	−2⅝
Microsoft	5,210,100	135⅝	+⅛
Dell Cmp	5,751,000	98⅞	−1⅜
Sun Micro	4,908,500	46⅞	−⅛

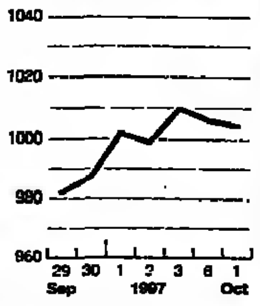
BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Asco Argent	32	+5½	+20.1
Biorx Imps	26	+4¼	+19.5
Globe Bus	22⅝	+3⅛	+16.0
Biotime Inc	76	+9⅛	+13.9
Downs			
Paul-Son	20½	−3⅛	−13.4
Herbalife	23	−3½	−13.2
Inmet Sys	10⅞	−2⅛	−12.2
Encore Wire	25⅛	−3½	−12.1

Dow Jones



FTSE Eurotop 300



JAPAN

	Oct 7	Oct 6	Oct 3	1997 High	1997 Low	Since compilation High	Since compilation Low
Nikkei 225	17511.19	17824.78	17647.45	20681.07	17303.65	38915.9	85.25

TOKYO TRADING ACTIVITY — Volume : 370,000,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Yashan Jpn	28,258,000	22	+13
Hitachi	8,806,000	7160	
Sumitomo Mtl	6,733,000	274	+17
Nippon Steel	6,123,000	273	−5
Sakura Bk	5,110,000	555	−11
Nippon Oil	4,640,000	547	+6
Hokkaido Tk	4,066,000	82	−5
Kobe Steel	3,872,000	735	−8
Yamaichi Scs	3,614,000	256	+4
Toto	3,599,000	870	−30

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Yashan Jpn	22	+13	+144.4
Taiyo Kaiun	84	+19	+29.2
Jpn Steel	743	+32	+28.6
Nittetsu St	172	+31	+22
Downs			
Matsuo Inds	421	−190	−31.1
Daiko Denshi	490	−167	−25.4
Nppn Shindo	90	−25	−21.7
Sanyo Secs	77	−13	−14.4

FRANCE

	Oct 7	Oct 6	Oct 3	1997 High	1997 Low	Since compilation High	Since compilation Low
CAC 40	3084.42	3077.98	3094.01	3094.01	2256.97	3094.01	984.61

PARIS TRADING ACTIVITY — Volume : 280,443,070

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Rho Poulenc	1,399,487	270.0	+6.0
Ass Gen Fr	1,052,460	239.9	+1.5
AXA-UAP	926,111	406.6	+2.0
Elf Aquit	886,326	790.0	−10.0
Total B	581,563	679.0	−73.0
Alcatel	533,754	804.0	−10.0
Rochette	480,524	30.45	−0.05
Usinor	424,853	122.5	−0.50
BNP	421,989	311.5	+1.2
Michelin B	421,808	370.0	−0.90

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Union Crd Bat	15.1	+2.1	+20.8
Loc Sofigrs	280.0	+23.0	+8.9
Infonie	89.0	+1.0	+6.5
Arjomari	1600.0	+100.0	+6.7
Downs			
Autoroute Ray	261.0	−29.0	−10.0
Gan Grp	125.0	−11.3	−8.3
Guilel Et	144.7	−9.9	−6.4
Sligos	716.0	−43.0	−5.1

GERMANY

	Oct 1	Oct 0	Oct 3	1997 High	1997 Low	Since compilation High	Since compilation Low
DAX	4307.39	4302.13	(c)	4438.93	2848.77	4438.93	931.10

FRANKFURT TRADING ACTIVITY — Volume : 12,962,483

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Deutsche Bnk	892,124	728.75	+7.8
Deutsche Tel	875,825	34.9	−0.05
Siemens	708,202	120.0	
Bayer	702,396	73.6	+1.2
Commerzbnk	680,600	67.0	−0.10
BASF	643,712	65.4	−0.20
Hoechst	493,464	79.6	+0.00
Dresdner Bnk	429,429	82.3	−0.90
Metallgeslsht	385,551	40.0	+1.6
Veba	379,829	107.1	−0.80

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Moenus Text	17.5	+3.0	+20.7
Moksel	17.4	+1.4	+8.7
Linotype	112.0	+9.0	+8.7
Ser Systeme	119.0	+8.5	+8.7
Downs			
Deutsche Bab	101.5	−8.4	−7.0
KSB Schranz	490.0	−35.0	−6.1
Oberland	271.5	−13.5	−4.7
Apcoa Parking	143.0	−1.0	−4.7

UK

	Oct 7	Oct 6	Oct 3	1997 High	1997 Low	Since compilation High	Since compilation Low
FTSE 100	5306.6	5300.0	5330.8	5330.80	4056.60	5330.8	986.9

LONDON TRADING ACTIVITY — Volume : 961,400,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Signet	182712300	33⅛	
BT	33,445,920	451½	−7
Caradon	22,084,990	189½	−½
Burton	20,826,520	133⅛	−½
BTR	10,402,870	243½	+3½
Shell T&T	10,343,830	483	+3
Brit Steel	9,310,389	179⅛	+½
Lloyds TSB	7,874,184	807	−9½
Rolls-Royce	7,821,281	238	−4½
Wiggins	7,329,907	12⅛	

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Gresham Hs	22	+7½	+51.7
Sleepy Kids	13½	+3	+28.0
Barlo	52	+5	+10.6
Beazer	192	+7½	+4.1
Downs			
Tunstall	700	−70	−6.7
Adv Pwr Cmp	70½	−1	−9.0
Mon	255	−19	−6.8
RJB Mining	283	−15	−5.0

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Dec	981.50	981.60	−	984.25	980.10	49,679	186,746
Mar	991.25	991.40	−	994.10	991.25	192	3,138

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Dec	17810.0	17510.0	−310.0	17870.0	17450.0	24,134	163,195
Mar	17520.0	17520.0	−280.0	17520.0	17520.0	1	7,711

Open interest figures for previous day.

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Oct	3084.0	3071.0	−1.00	3108.0	3036.0	14,845	32,597
Nov	3092.0	3079.0	−1.50	3111.0	3056.5	293	7,361

DAX	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Dec	4352.0	4338.0	−12.0	4377.0	4287.0	19,731	62,464
Mar	4392.5	4374.5	−11.5	4409.5	4333.0	150	2,755

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Oct	2630.0	2643.00	+23.00	2647.00	2620.00	4,330	25,228

SOFFEX	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Oct	5914.9	5880.0	−44.0	5947.5	5818.0	5,852	23,988

WORLD MARKETS AT A GLANCE

Country	Index	Oct 7	Oct 6	Oct 3	1997 High	1997 Low	Yield	P/E
Hungary	Bux	7670.60	7651.96	7681.58	8483.80 6/8	4291.30 6/1	na	na

Market a shade firmer, largely due to gains in oil and gas company, MOL and OTP Bank.

Country	Index	Oct 7	Oct 6	Oct 3	1997 High	1997 Low	Yield	P/E
India	BSE Sens.	3909.46	3857.34	3847.73	4548.02 5/8	3225.24 2/1		
	Crisil 500	730.24	713.36	711.79	843.28 5/8	622.71 2/1	na	na

[illegible]

NASDAQ NATIONAL MARKET

4 pm close October 7

[illegible]

AMEX PRICES

4 pm close October 7

[illegible]

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members

Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$3		24500	8.25	2.875
Artwork Systems	US$8.125	+0.125	0	11.125	7.875
Chemunex	FFr12.5		35000	10	10
Debonair Holdings	GBP5.1	−0.5	100	7.15	4.5
Dr Solomon's ADS	US$25.625	−0.375	1000	30.75	18.875
EDAP TMS	US$8.875	+0.4375	7350	9.125	6.5
ESPACE PROD INT	FFr113.5	−0.5	500	125.5	113.63
Esprit Telecom ADS	US$5.875		236029	12.25	5.375
Innogenetics	US$11.875	+0.375	17570	12.75	9.875
Lernout & Hauspie	US$48.375	−0.5	0	48.25	25
Mercer Int'l	US$11		0	11.75	8.125
NTL	US$26.250		0	27.5	20.5
PixTech	US$3.5	−0.125	0	6.125	3.375
Schoeller-Bleckmann	Sch1550	+35	7030	1692	900
Topcall Int'l	Sch4906	−10	947	5010	3065
Turbodyne Technol.	US$5.1	−0.15	0	6.25	3.73

Prices for 7/10/97. Please note that mid prices are now used to calculate highs and lows. Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be EASDAQ offices are located in Brussels (Tel 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 9880).

FINANCIAL TIMES

Wednesday October 8 1997

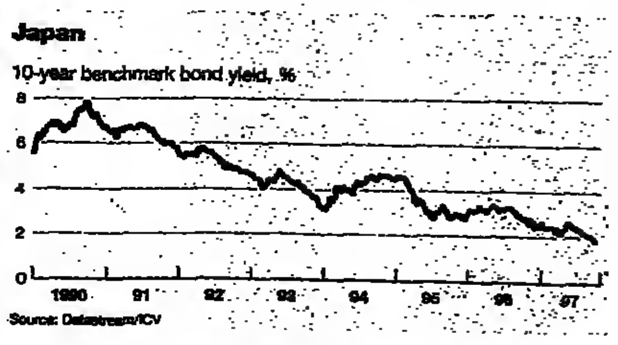
Gloomy report puts Tokyo further in shade

WORLD OVERVIEW

Talk of a world bull market often skates over the terrible performance of the Tokyo bourse, still languishing at less than half its end-1989 levels, *writes Philip Coggan.*

Indeed, with the IFC Asia index down 34 per cent in the third quarter, perhaps one should now talk of an occidental bull market.

The Nikkei 225 average took another hit yesterday after further gloom about the state of the Japanese economy. Japan's Economic Planning Agency said the pace of recovery was gradual and business sentiment was cautious. Such views helped take the yield on the 10-year government bond to a record low of 1.71 per cent.



Source: Datastream/ICV

Peter Chambers, chief investment strategist at HSBC James Capel, says that "what has happened in the last two months has been a spate of earnings downgrades in the face of the bad second-quarter GDP figures and the indications from the tankan survey of a weak third quarter. That may continue for another month, keeping the market under pressure. Optimism will come through towards the end of this year or the start of next when the government takes action to stimulate the economy."

Dresdner Kleinwort Benson is very overweight in Japan arguing that equities in Tokyo "have limited downside. Financial markets have already reflected the reality of deflation. Hence the real yield on bonds has collapsed as equities have been de-rated relative to bonds. The earnings yield on the equity market has thus risen decisively above bond yields for the first time."

The Tokyo market has been a repeated disappointment to those investors who have sought to call the bottom. In the past few years, it has paid to stick with the winners such as Wall Street.

Robert Fleming's latest emerging market focus says investors should resist the trend to bottom fish in south-east Asia. "The Asean four now find themselves in a downward spiral, with the financial markets negatively affecting the economy and vice versa, in the absence of the political leadership necessary to restore stability."

As if to echo the group's words, the Manila market took another battering yesterday on currency worries.

European markets largely edged lower as the dollar weakened against the D-Mark, in spite of another increase in German unemployment and the Bundesbank's decision to leave interest rates unchanged.

The Milan market closed only slightly lower as prime minister Prodi battled to get his budget through parliament. Failure to pass the budget, or a government defeat which forced an election, would call into question Italy's ability to join the first wave of European economic and monetary union.

London market, Page 30

EMERGING MARKET FOCUS

Russian bulls thunder ahead

Several bull markets have thundered around the world this year but none has matched Russia. For the second year running, Russia is likely to emerge as the world's best performing stock market. It has surged 185 per cent this year to add to the 140 per cent gain recorded in 1996.

Moscow's excitable stockbrokers are still plugging a strong story. A rejuvenated Boris Yeltsin is striving to create "capitalism with a human face" and is backing Anatoly Chubais and Boris Nemtsov, his young reformist ministers, to civilise Russia's wild markets.

The country's recent inclusion in the Paris Club of sovereign creditor nations and its debt rescheduling agreement, signed on Monday with the London Club of commercial creditors, have boosted Russia's international respectability. Its inclusion next month in the benchmark emerging market investable indices of the International Finance Corporation and Morgan Stanley Capital International will also enhance its standing.

Moreover, after almost a decade of contraction, the Russian economy is finally turning. Once-stratospheric interest rates have tumbled to 18 per cent and inflation is likely to fall to less than 10 per cent next year. Industrial production grew 3 per cent in August, on a year-on-year basis.

In contrast with many markets in south-east Asia, Russia stands at the start of an economic upswing while its stock market remains lowly valued by international yardsticks.

In spite of its startling growth, the stock market's total value is equivalent to just 20 per cent of gross domestic product, compared with a ratio of more than 100 per cent in many more advanced countries.

But some analysts fear investor sentiment has swung so far over the past year that it risks flying out of control. "Last year, Russia was five on a 10-point scale and everyone thought it was at two. This year, the reality has moved to six but everyone thinks it's gone to eight," says one Moscow banker.

The Russian economy is still dogged by a mass of inter-enterprise debt, a fragile federal budget, a punitive tax regime, a weak legal environment, and an obstructive and venal bureaucracy.

"The reforms may be slower to take effect than people are anticipating. There is no magic bullet. It will be a two-year slog. And if we do not see results in one to one-and-a-half years, people may start to panic," says Dirk Damrau, head of research at MFK Renaissance, a Moscow-based investment bank.

Four forthcoming privatisations will soak foreign and domestic money out of the secondary market over the next few months. And some analysts fear any sharp correction on Wall Street, knocking Russian shares, could lead to a credit crunch among the domestic banks and industrial groups, which have underpinned this year's rally.

Investors in Russia may have overcome their vertigo but it remains a high-wire act.

John Thornhill

Dow rises as buyers seek blue chips

AMERICAS

Wall Street had another bullish early run with technology and blue-chip stocks trading higher to lift the Dow Jones Industrial Average strongly above the 8,100 level, *writes John Labate in New York.*

"The markets are pretty strong today and it is widespread," said Warren Epstein, director of trading at Richard Rosenblatt & Co.

Aiding sentiment was further gains for bonds which helped push up financial stocks. The long bond yield fell below 6.25 per cent.

Technology stocks were the morning's strongest sector with the Nasdaq composite index up 14.02 or 0.81 per cent at 1,735.93. Semiconductor shares led the way with the Philadelphia semiconductor index of 16 stocks nearly two per cent higher at 380.31.

Intel rose $1⅞ at $95⅛ while Motorola, which late on Monday reported high earnings but warned on revenue growth, was up $1 at $73⅞. Shares in Texas Instruments and Micron Technology were also sharply higher. Networking firm Cisco Systems gained $2 1/16 to $81¾ after a "buy" rating by UBS.

By early afternoon blue-chip stocks were catching up with Nasdaq gains. At 1pm, the Dow had gained 50.34 or 0.62 per cent to 8,150.56. The broader Standard & Poor's 500 index was also higher, gaining 7.18 at 979.87. Among the biggest improvers in the Dow were IBM, up $2¼ at $106 11/16, and AT&T, $1 3/16 higher at $45¼.

Helping to set a bullish tone were comments by Goldman Sachs analyst Abby Joseph Cohen. "The fears that drove stock prices to the lower end of the choppy trading range in August have now abated," she stated in her report.

"We believe that low inflation expectations, not just low inflation, have been an important driver for the long-lasting economic expansion," she writes.

Shares in Pepsico surged more than 5 per cent to $39 on the first day of trading of its restaurant spin-off Tricon Global Restaurants. Tricon's shares traded at $31¼.

Transport stocks, one of the best performing sectors in recent weeks, were mixed. Federal Express fell $1¼ to $73 13/16 while Delta Airlines gained $1⅞ to $98¾.

TORONTO continued to probe new high ground. Banks were mixed but there were solid gains among oils and Northern Telecom was more than 2 per cent higher. The 300 composite index was up 41.12 at 7,209.50 at noon.

Canadian Occidental rose 25 cents to C$40.75 and Gulf Canada put on 30 cents to C$13.05. Northern Telecom advanced C$3.00 to C$151.75 on the NetSpeed link-up. News of a Boeing contract sent Magellan Aerospace C$1.40 higher to C$10.40.

Banks showed signs of stress after their recent strong run. "It looks as some profits are being taken," said one broker. Bank of Montreal lost 35 cents to C$60.80 and Canadian Imperial came off 30 cents to C$41.00. Toronto-Dominion Bank added 35 cents to C$51.60.

Budget wrangle grips Milan

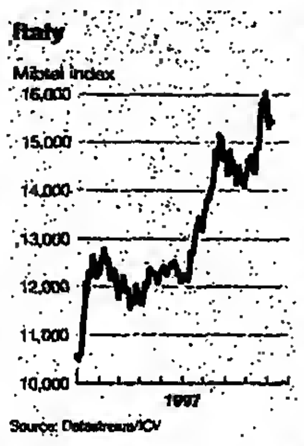
EUROPE

Italy's budget crisis dominated trading in MILAN as investors fretted that a dispute between Romano Prodi, prime minister, and his neo-Communist allies over next year's fiscal proposals could cause the 18-month-old coalition to fall.

The market spent most of the day in negative territory, dropping 350 at one stage, before a late rally which left the Mibtel real-time index down 27 at 15,431.

"Investors have finally woken up to the fact that the government's resignation could jeopardise Italy's plans to be in the first wave of countries joining European monetary union," said Francesco Giordano, an economist at Credit Suisse First Boston.

He warned that political instability could lead Italy's EU partners to rule out entry on the grounds the country would be unlikely to sustain the economic convergence criteria in the long term. Milan's year-long rally, has been built on hopes of early entry to Emu.



Source: Datastream/ICV

After the market closed, neo-Communists made it clear that they would not be voting for the budget proposals without unspecified changes, opening the way for further market instability today.

PARIS continued to slip in dull volume. Oil leaders tracked the weaker spot oil price, and defence and electronics group Lagardère ran into profit-taking after Monday's 3.6 per cent rally. The CAC 40 index came off 13.56 at 3,064.42.

Total fell FFr13.00 to FFr679 and Elf Aquitaine FFr10.00 to FFr790. Lagardère lost FFr4.60 at FFr189.4. Air Liquide shed FFr10.00 to FFr1,006, not helped by a downgrade by Deutsche Morgan Grenfell from "neutral" to "underweight" following a company visit.

Worms remained suspended after Monday's counter-bid from Ifil of Italy and AGF, but the latter was back in action, adding FFr1.50 to FFr239.9 on positive broker analysis of the proposed deal.

Motor stocks contained a number of bright spots. Valeo added FFr5.50 at FFr407.5 following a near 16 per cent rise in nine-month sales and an upbeat outlook for 1997 earnings. Peugeot gained FFr15.00 to FFr806.

FRANKFURT finished a dull day weaker. The Ibis-indicated Dax index, which fell below 4,300 during the session, finished at 4,311.13, down 15.22, after early gains on Wall Street provided some support.

Among stocks on the move, SAP rose sharply after announcing that sales were above expectations in the third quarter. Costs were also higher than expected, but grew slightly slower than sales. The preferred stock rocketed to an all-time high of DM516.50 shortly after electronic dealing opened, but settled back to trade DM2.85 higher on the day at DM506.

Preussag added DM3.80 to DM514.80 after the the steel group said its year-to-September steel sales rose 3.5 per cent.

Vereinsbank slipped DM3.45 to DM109.95 after it priced the shares in its 1-for-14 rights issue at DM85. Hypo Bank, which will merge with Vereinsbank next year, gave up DM1.25 to DM84.63.

BASF picked up 50 pfg at DM66.45 after it said its agrochemicals division posted nine-months sales of DM2.7bn, up 40 per cent. Bayer added DM1.35 to DM74.05 but Hoechst slipped 27 pfg to DM79.85.

Continental fell 35 pfg to DM47.95, pulled off a high of DM49 by profit-taking after Lehman Brothers increased its 1997 year-end price target to DM54 from DM50.

ZURICH lost ground as the weaker dollar triggered profit-taking in most sectors, and the SMI index closed 50.5 lower at 5,846.9.

Against the trend, Nestlé picked up SFr8 to SFr2,114 on the view that the company would benefit from restructuring measures while maintaining high operating margins in 1998.

ABB fell SFr36 at SFr2,193 in spite of Monday's announcement of a $700m power plant order from the UK.

Pharmaceuticals fell in the wake of the dollar's weakness, with Roche certificates losing SFr190 to SFr13,150 and Novartis SFr37 to SFr2,277. Ciba SC was up SFr1.25 at SFr148.50 ahead of the release of nine-month results next week.

FTSE Actuaries Share Indices — European series

October 7

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj	Total retn (Ecu)
FTSE Eurotop 300	1004.51	−0.12	−1.17	2.22	0.00	1008.98
FTSE Eurotop 100	2336.13	−0.28	−6.46	–	–	–
FTSE Eurotop 300 Regions						
300 UK	1002.27	+0.26	+2.56	3.08	0.00	1011.01
300 Ex-UK	1006.54	−0.33	−3.32	1.72	0.00	1008.59
300 Eurobloc	1004.80	−0.38	−3.83	1.90	0.00	1007.63
300 Ex-Eurobloc	1005.30	+0.07	+0.73	2.44	0.00	1010.82
FTSE Eurotop 300 Economic Groups						
Resources	1031.93	−0.11	−1.18	2.63	0.00	1044.59
General Industries	1028.01	−0.01	−0.15	1.69	0.00	1029.40
Consumer Goods	956.85	−0.22	−2.15	1.87	0.00	959.90
Services	986.61	+0.06	+0.63	2.19	0.00	990.73
Utilities	976.56	−0.19	−1.84	3.14	0.00	982.14
Financials						

Base value 1000. More information on http://www.ftse.com. 'FTSE' and 'Footsie' are registered trade marks of the London Stock Exchange and The Financial Times. 'Eurotop' is a registered trade mark of the Amsterdam Stock Exchange. FTSE Eurotop indices are compiled by FTSE International. © FTSE International Limited 1997. All rights reserved.

AMSTERDAM turned lower with a weaker dollar pulling down a number of heavyweight internationals. Philips fell nearly 3 per cent and the AEX ended off 11.20 at 950.61.

Philips lost Fl 4.90 to Fl 166.9, with the dollar and a dull run in New York for IT shares said to be the main cause. Among financials, ABN fell 70 cents to Fl 43.5 in 6.8m shares traded.

Bright spots took in a gain of Fl 5.20 to Fl 370.2 at Akzo Nobel, buoyed by recent disposal news. Computer group Getronics rose Fl 7.60 or 12 per cent to Fl 70.80 as hopes rose for the takeover of state-owned Roccade.

Written and edited by Michael Morgan, Jeffrey Brown, Jonathan Ford and Peter Hall.

SOUTH AFRICA

Johannesburg made further upward progress with the all-share index closing 24.7 higher at 7,262.1, mostly on the back of a strong run for industrials. The industrial index advanced 46.1 to 8,856.3.

It was a good day for Paradigm, the communications group, to make its debut. The shares climbed to R3.85, against a flotation price of R2.50. Golds dropped 33.5 to 1,025.8.

São Paulo turns lower

Latin American centres swung lower across the board with São Paulo leading the way down in a morning session that appeared to take no heart from Wall Street's strong start.

By midsession, SAO PAULO had lost ground and showing signs of wanting to bring a seven-day winning streak to an end. "There has been no real weight of selling in equities but we are seeing pockets of profit-taking," said one broker. Telebras came off 0.57 per cent to R$156. The Bovespa index was down 128 or 1 per cent at 12,560 at midsession.

MEXICO CITY also dipped as local money market rates hardened. Telmex lost 15 centavos at 20.45 pesos, but there was upside action in Tamsa, the steel tube maker. Its ADRs rose in New York while locally the shares gained 10 pesos to 223 pesos. At midway, the IPC index was 29.84 down at 5,286.12.

SANTIAGO eased in what dealers called "apathetic turnover". The IPSA index was off 0.48 at 125.17 at midsession.

Economic worries push Nikkei lower

ASIA PACIFIC

Tokyo fell 1.8 per cent in volatile trading as economic worries sparked heavy selling, *writes Gwen Robinson.* The Nikkei 225 average ended 313.59 lower at 17,511.19 after moving between 17,478.72 and 17,889.71.

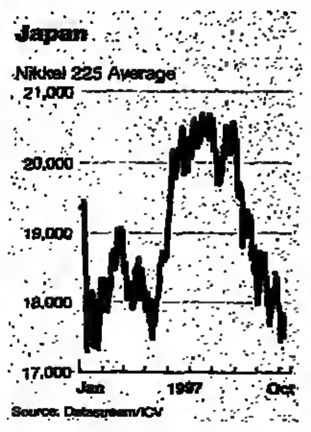
There was clear selling pressure from the futures market and concern that today's listing of Central Japan Railway, or JR Tokai, would place further strain on the market.

The latest Economic Planning Agency report cast added doubt on prospects for Japan's economy.

Volume climbed to an estimated 370m shares from 349m. Declines led advances 696 to 433, with 128 unchanged. The Topix index of all first-section stocks slipped 16.24 to 1,374.82 and the capital-weighted Nikkei 300 was down 3.54 at 272.77.

In London, the ISE/Nikkei advanced 1.20 to 1,617.72.

High technology and electrical issues retreated. Sony fell Y200 to Y11,800, TDK Y300 to Y11,300 and Advantest Y300 to Y13,200. Ibiden ended Y120 lower at Y2,580 after hitting an intra-day high at Y2,580. Sharp fell Y40 to Y1,070 and NEC Y20 to Y1,490. In contrast, Tokyo Electron rose Y100 to Y8,130 after reaching a record intra-day high of Y8,270.



Source: Datastream/ICV

Carmakers fell. Nissan slid Y19 to Y710, Toyota Y60 to Y3,640 and Honda Y100 to Y4,330. Rail stocks fared badly ahead of the JR Tokai listing. East Japan Railway fell Y17,000 to Y551,000 and West Japan Railway Y5,000 to Y396,000.

NTT lost Y20,000 to Y1.09m and Japan Tobacco Y14,000 to Y971,000. In Osaka, the OSE average fell 165.65 to 18,012.61 in volume of 15m shares.

MANILA lurched lower for the second day running as money market rates continued to soar in the face of a weakening peso. The composite index ended off 40.61 at 1,920.63 for a two-day decline of 5.5 per cent.

Investors ran for cover as the peso fell steeply on the foreign exchanges and overnight rates jumped to 160 per cent. Metropolitan Bank ended down 3.00 pesos to 239 pesos after touching a low for the session of 217.

TAIPEI was also dragged lower by mounting currency concerns. The composite index came off 171.24 or 2 per cent to 8,221.35 in weak volume. Within an electronics sector down 3 per cent, United Microelectronics rallied T$1.5 to T$82.5.

SEOUL tumbled 2.2 per cent, stung by news that Woo Sung Foods had filed for special court protection late on Monday after missing payments on Won17.3bn worth of promissory notes.

Analysts said that the fall deepened in the afternoon, after pressure by foreign selling of blue chips over fears of a crash in financial markets and the evaporation of hopes that the government would soon announce long-awaited steps to reinvigorate the equity market.

The composite index closed down 14.18 at 630.03. The exchange authorities said trading in shares of Woo Sung, which were suspended, would resume tomorrow under supervision.

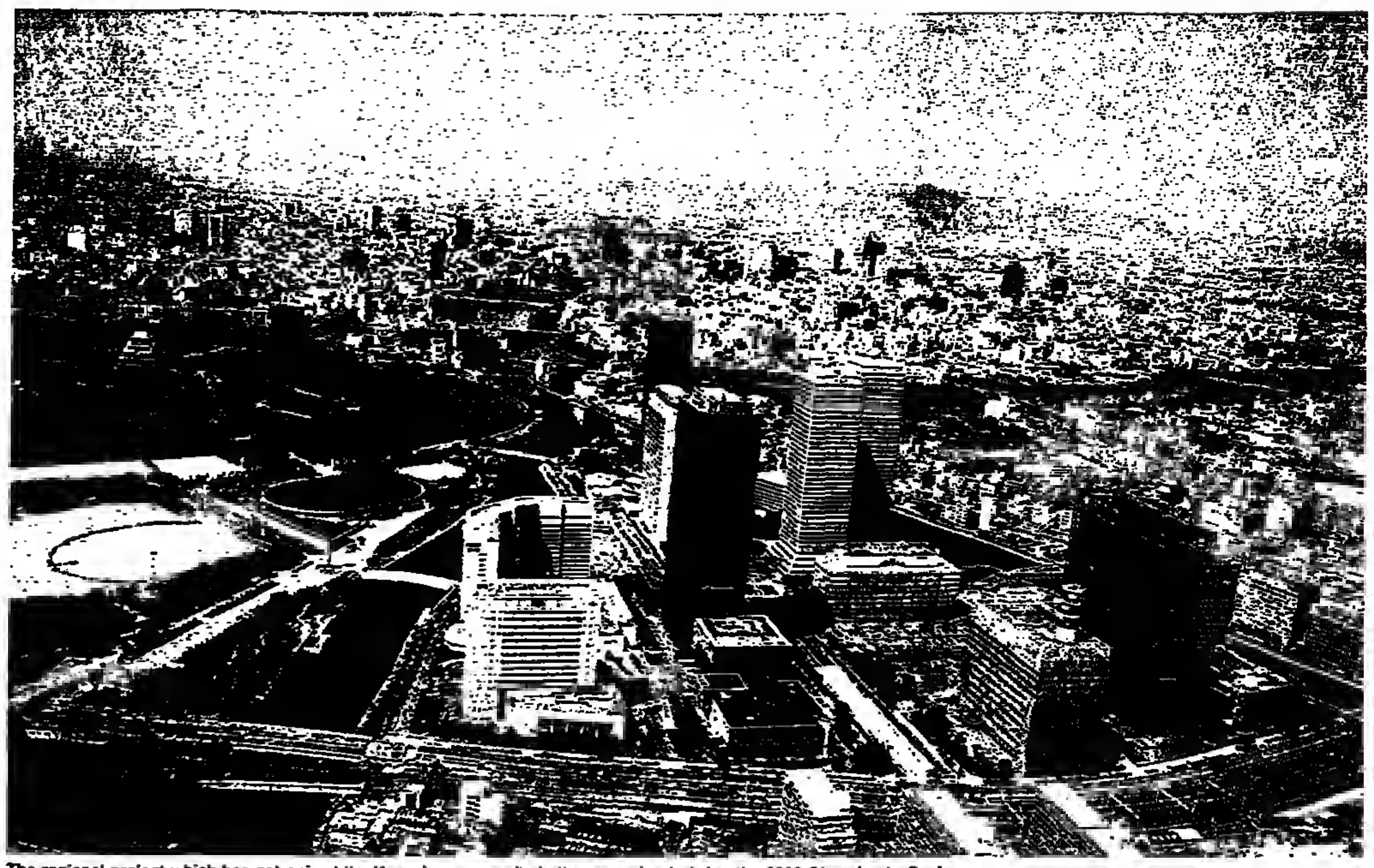
Most Woo Sung affiliate companies, which continued to be traded, slumped to their lower daily limits – as did the shares of other companies rumoured to be facing similar cashflow problems.

KUALA LUMPUR staged a strong afternoon rally, helped by another good day for the ringgit and an upbeat speech from Anwar Ibrahim, finance minister, on economic prospects.

Gains were spread across the board with brokers detecting renewed signs of foreign buying. The composite index rose 9.3 to 803.45.

Helped by remarks from Mr Ibrahim about a rally in the currency, the financial sector led the advance, with RHB Capital up 24 cents to M$3.92 and Raschid Hussain 10 cents to M$7.45.

Kansai



The regional project which has galvanised the Kansai community is the campaign to bring the 2008 Olympics to Osaka

The ancient capital and its surrounds are responsible for karaoke, instant noodles and much more, **reports Michiyo Nakamoto**

A tradition of innovation

Last month a massive building of concrete and glass became the new gateway to Kyoto; the ancient capital of Japan. The Kyoto station building, constructed amid some controversy, is a grey, concrete monolith that stands in stark contrast to the picturesque temples and shrines that bave made Kyoto famous throughout tbe world.

The combination of old and osw, exemplified by Kyoto's choice of design for its new terminal, may be jarring to those of a more conservativs bent than the judges who chose the winning design. But it is very much a feature of modern-day Kyoto and the Kansai region to which it belongs.

Kansai, perbaps more than any other region in Japan, is a land of contrasts. Ths birthplace of the world's oldest novel, the Tale of Genji, traditional Japanese Noh theatre and the Japanese kana alpbabet, Kansai is also bome to weird and wonderful modern innovations, from karaoke to instant noodles and mosquito coils.

While its legacy as the cultural home of the nation has put the region firmly on the international map, it is the innovative, enterprising spirit of the people thet is being called upon to ensure a vibrant future for the nine prefectures and three ordinance designated cities that count themselves as a part of Kansai.

In spite of being a leading industrial centre that gave birth to global names such as Matsushita, Nintendo and the Sumitomo group, Kansai has struggled in recent years tn keep its economic development from slipping below the national average.

Natural disasters, such as tbe Hanshin-Awaji earthquake that devastated much of Kobe in 1995 and the outbreak of E.coli bacteria whicb depressed consumptioo and public sentiment last year, have played their part.

Yet there is no doubt that historical circumstances have left Kansai more dependent than it would like to be on industries that are either declining in economic importance or increasingly shifting their attention outsids the country.

As much as 34.7 per cent of shipments from the Kansai region comprised basic materials in 1995, while 36.6 per cent involved processing and assembling, particularly of electrical and general machinery, according to government statistics.

Kansai was the source of 26.2 per cent of textiles, 23.7 per cent of iron and steel and 23.4 per cent of metal products shipped in Japan in that year.

These industriss have faced increasingly fierce competition from neighbouring countries in Asia, which has forced many Kansai-based companies to shift a good proportion of their manufacturing activities to lower-cost sites overseas. The number of factories set up in the Kansai region has been no a downtrend since the 1980s, falling to 174 last year, according to the Kansai Economic Federation.

Although in the 1970s, Kansai had the second largest share of shipments of manufactured goods, after the Kanto region in eastern Japan, the Kansai Economic Federation notes that it lost that place in 1982 to the Chubn region in central Japan where Toyota, the world's second largest car maker, is based.

Perhaps of greater concern is that the Kansai region has not been as quick to respond to the structural changes affecting the Japanese economy as the reginn centred around Tokyo in eastern Japan.

Whereas the Tokyo metropolitan area boasted a 63.5 per cent share of overall sales of information service industries in 1994, Kansai's share was just 13 per cent. The Tokyo metropolitan area's gross regional product in 1994 made up 27.9 per cent of the country's GDP, compared with 16.5 per cent for Kansai.

Sucb statistics, meticulously compiled by the Kansai think tanks, testify to the region's obsession with its place in Japan's ecooomic league table.

It is a pre-occupation that has helped to pull together the resources of the regional business communities in an effort to stimulate the Kansai economy and better prepare it for the future.

In its determination to avoid playing second fiddle to greater Tokyo, Kansai is coocentratiog its resources oo developing its owo streogths and becomiog more independeot of the national capital.

Against considerable odds, and in spite of significant criticism, Kansai Internatiooal Airport opeoed its doors in the autumn of 1994 as an important gateway linking the region directly to the rest of the world.

The Akashi Kaikyo Bridge, a 3,910-metre long bridge, is being built across Osaka Bay to link the port city of Kobe with Awaji Island. Kansai Science City is a 15,000 hectare mega project spanning Kyoto, Osaka and Nara prefectures.

By 2001, Osaka expects to be the proud home of the first overseas theme park to be developed by Universal Studios, of Hollywood fame. The Kansai business community plans to build a second Diet library in the region.

But, the regional project whicb bas galvanised tbe community is the campaign to bring the 2008 Olympic games to Osaka. Yasuo Shingu, chairmao of the Kansai Economic Federation looks to the Olympics campaign as a perfect opportunity to boost spirits and build solidarity in the region.

"In order to build a happy aod eoergetic Kansai, it helps to bave some goals, and the Olympics provides just such a goal," says Mr Shingu.

The bope is that the infrastructure built through such regional co-operation can become the foundation for a more vibrant economy. But the stronger alliance among local governmeots fostered through this co-operation can also provide greater leverage in tbe Kansai regioo's battle against the Tokyo area, the seat of the ceotral government.

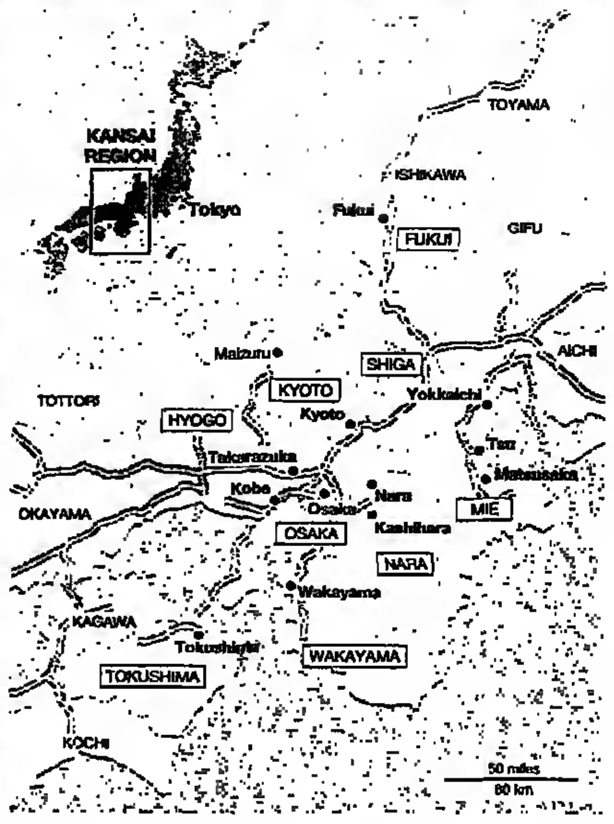
There is strong resentment in Kansai of tbe strong autbority commanded by Tokyo, its perennial rival. Just as deregulatioo is needed to raise corporate efficiencies and allow innovative companies to emerge, the central government oeeds to relax its grip over matters that are more properly dealt witb on a regional level, Mr Shingu says.

To that end, regional governmeots should be given greater control over public fuods, and the ratio of oational taxes to regional taxes should be 1 to 2, rather than 2 to 1 as they are now, be says. With the exception of emergency funds to deal with disasters, subsidies from the national government to the regions, whicb is a major cause of unwanted meddling by the central governmeot in regional affairs, should be abolished.

"We pay a lot of taxes to the national governmeot and don't get half of it back. Whenever we want to do anything we have to go to Tokyo and run around asking for subsidies, even though we ourselves are providing a lot of those national funds," Mr Shingu moans.

The Kansai region is not calling for independence just yet. But Mr Shingu notes

Continued on Page 6



THE ECONOMY • by Michiyo Nakamoto

Fresh approach is needed

Region needs to move away more rapidly from reliance on old industries

The Kansai region, home to many of the manufacturing industries that propelled Japan's growth in the past, offers a microcosm of the structural problems facing Japan at the close of the 20th century.

Amid increasing global competitioo aod mature domestic markets, Japan faces an urgent need to nurture oew industries to support ecooomic growth in the years ahead. But the Kansai region is particularly hard-pressed to do so as a result of its greater reliance on the iodustries that have shouldered much of the country's economic growth in the past.

Although Kansai's gross regional product of $802bn in fiscal 1994 placed it seveoth in the world – just behind Italy and ahead of Canada – according to the Kansai Economic Federation, tbe region's business leaders have reason to be concerned about their economic future.

Nearly 37 per cent of total shipments, by value, were in the processing and assembly industries, particularly electrical and general macbinery, while another 35 per cent came from tbe basic materials industries such as chemicals, metal products and iron and steel, according to a study by the Kansai Economic Federation.

"Kansai has traditionally been dependent oo materials industries whicb have bsd to compete with those in Asian countries and are now shifting overseas," aays Yasuo Sbingu, the federation's chairman. "These industries need to develop new technologies [in order to rompete], and at the same time we need to nurture new venture industries in the region."

While many leading companies in the Kansai area, from Matsushita (consumer electronics) to Kyocera (ceramics), have been quick to make the transition to higher value-added products, on the wbole Kansai has not adjusted as rapidly to the changing economic environment as it needs to.

For example, in the information service industry, which is becoming an important pillar of economic growth, the Kansai area has lagged the Tokyo region, which includes neighbouring Chiba, Saitama and Kanagawa prefectures.

Compared with the Tokyo region, which was the source of 63.5 per cent of annual sales in the information services in 1994, Kansai contributed only 13 per cent, the Kansai Economic Federation says.

The region also lagged the Tokyo metropolitan area in setting up new businesses.

The Kansai region's failure to make the necessary structural changes to its economy has led to a gradual decline in its contribution to the overall Jspanese economy, from a peak of 19.5 per cent in 1970 when Osaka hosted the World Expo, to 17 per cent in 1995, according to the Sanwa Research Institute Corporation (Sric), a privata 'think-tank'.

What is more, there has been s gradual decline in Kansai region's population over the past 20 years. That trend has been accelerated hy the Hanshin-Awaji earthquake which devastated the region, particularly the port city of Kobe, in 1995.

Unless the region can quicken the transition to an economy based on more high value-sdded manufscturing activities and new, particularly service, industries, the near-term outlook remsins rather bleak.

Recent statistics show that the growth of the regional economy has fallen short of overall growth in Japan as a whole and could decelerate in the coming years as post-earthquake reronstruction declines.

While the Kansai region's real GDP growth in fiscal 1995 and 1996 is forecast to exceed that of Japan as a whole, mnch will hsve stemmed from reconstruction rather than normal economic activity, sccording to Sric. Without such demand, the region's economic growth in those two years would he below that of the rest of Japan, the think-tank concludes.

Sric estimates that reconstruction sctivity after the earthquake pushed real GDP growth up by 1.9 points in 1995 to 3.1 per cent and 0.4 points in 1996 to 2.9 per cent. It believes growth will be sustained above the national level by continuing capital spending, housing investment and public works projscts, which are likely to support GDP growth of 1.5 per cent in fiscal 1997.

Meanwhile, a flurry of public projects in the past several years has given substantial support to economic activity in the region. There are nearly 900 projects either in the planning stage or under construction, according to the Centre for Industrial Renovation of Kansai.

Including projects such as the Kansai international airport, which opened in 1994, the Kansai Science City and the Osaka Bay Area Development Project, the total value of the schemes for which figures are avallable amounts to $387bn.

However, given that reconstruction demand is bound to decline and that huge projects snch as the international airport will wind down, the Kansai economy will need to rely to a greater extent on private economic activity for its longer-term health.

The region's leaders are hoping that initiatives such as construction of the Universal Studios amusement park, scheduled to open in 2001, will encourage the development of the region's film and multimedia industry.

The growing role of the Kansai region as a Japanese base for Asian economic activity is also a promising trend, notes Shigeru Matsushita, senior economist at the Sanws Research Institute and Consulting Corporation.

"The Asis-Pacific region is the fastest-growing region in the world, and to have a direct link to that region through the Kansai international airport is a major advantage," Mr Matsushita says.

The Osaka stock exchange, for example, is trying to distance itself from the Tokyo stock exchange by attracting Asian company listings, Mr Matsushita notes.

There is spreading optimism that Kansai's star will shine brighter with the growing development of Asia as an economic powerhouse. As Mr Shingu at the Kansai Economic Federation stresses: "Kansai should be attractive for the people of Asia to do business with since it is economically as big as Canada, there are many facilities, and most Jspanese reclpients of the Nobel prize are from the Kansai region."

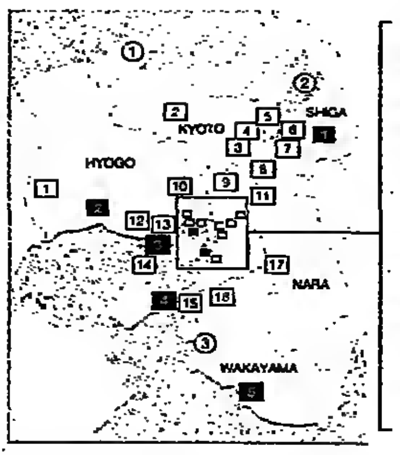
Projects in Kansai

Transportation network developments
1 Biwako Airport
2 Harima Airport
3 Akashi Kaikyo Bridge
4 The Kitan Route
5 Nanki Shirahama Airport

Resort area development
(1) Tango Resort Project
(2) Biwako Resort Necklace Project
(3) Wakayama Marina City

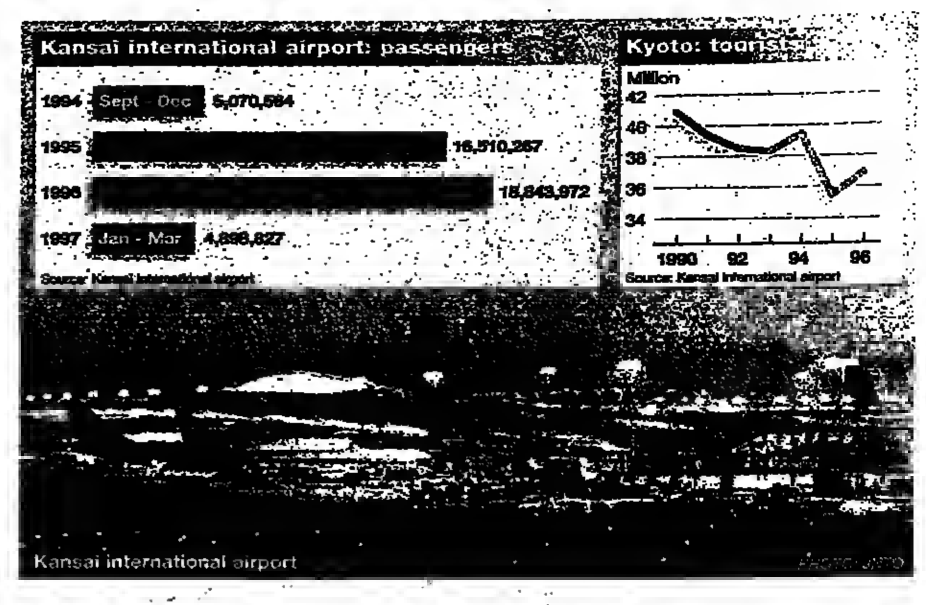
Urban development
1 Harima Science Garden City
2 Ayabe Industrial Park
3 Kyoto Research Park
4 Kyoto State Guest House
5 Biwako Science Park
6 UNEP Int'l Environment Technology Center Shiga
7 Biwako Garden City
8 Rakunan New Town
9 International Culture Park
10 Kobe Sanda International Garden City
11 Kansai Science City
12 Kobe Research Park
13 Kobe Academic Town
14 Awaji Int'l Garden City
15 Cosmopark Kata
16 Nanroku Science Park
17 Techno Park Nara

Source: Kansai Economic Federation

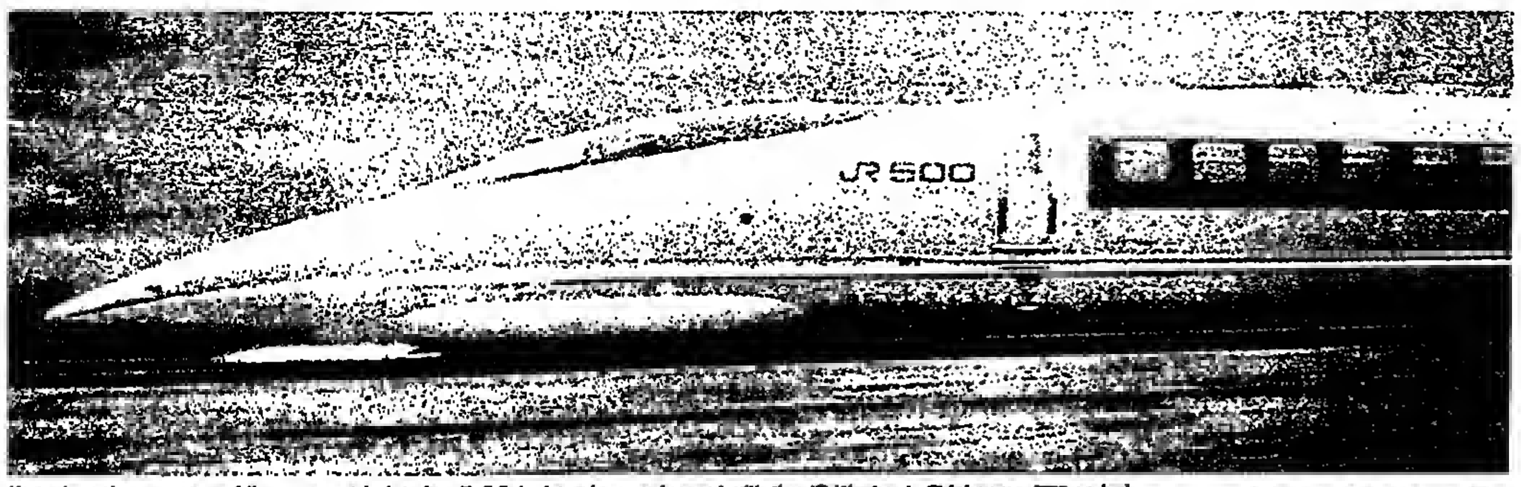


Urban development
Port Island (Phase 2)
New City Center in eastern Kobe
WHO Center in Health Development
Rokko Island
Universal Studios Japan
UNEP International Environment Technology Center Osaka
Osaka International Convention Center
Technoport Osaka Asia and Pacific Trade Center
Rinku Town

Transportation network developments
Kobe Airport
Kansai international Airport (Phase 2)



Kansai international airport



Kansai needs to move rapidly to nurture industries. Rail links have been enhanced with the JR Western's Shinkansen (500 series) Photo: Japan National Tourist Organisation

THE ENVIRONMENT • by Michiyo Nakamoto

The destruction of beauty

Lake Biwa is a striking example of humanity's neglect of nature

The Kansai region has found itself at tbe forefront of efforts to preserve the natural landscape as protection of tbe environment has become one of tbe country's growing priorities.

Lake Biwa, Japan's largest freshwater lske located in Shiga prefecture, is one of the country's most famous victims of human damage to the natural environment.

The lake, which dominates Shiga, a prefecture that is sandwiched between the scenic Ise Bay to the soutb and Wakasa Bay to the north, is one of the oldest lakes in the world, along with the Caspian Sea in ceotral Asia, the Baikal in Russia and Tanganyka in east Africa.

Over the years, however, buman activity bas inflicted damage on tbe lake, which years of conservation efforts have failed to completely repair.

Shiga prefecture's development from a primarily agriculture-based economy to one of tbe most industrialised areas of Japan, the growtb in the surrounding population from 850,000 in 1955 to more than 1.3m today, and a marked change in the Japanese lifestyle bas led Lake Biwa to be plagued by freshwater red tide, water hloom, an increase io unwanted weeds and a decline in the indigenous fish and shellfish populations. Fishing has gone into serious decline, and only one of 20 swimming areas remains.

The increase in disposable products, the spread of mass production and mass consumption and urhanisation have all contrihuted to the pollntion of Lake Biwa, points out Kiyoshi Imai, secretary-general of the International Lake Environment Committee, an international non-governmental organisation established in 1986 to promote environmentally sound management of lakes.

The natural life cycle of the lake has been upset by human activity, he notes. For example, reeds that have acted as cleansing agents in the lake have grown taller than normal as a result of the high level of nutrients put into the lake. The lake's waves have cut the overgrown reeds, leaving the bottom part of the plants to rot in the water, says Mr Imai.

Shiga prefecture introduced legislation in 1995 to cut back the amount of pollution stemming from nearby homes. Although regulations restricting pollution hy industry ara commonplace, the introduction of legislation targetting the general public was "revolutionary", Mr Imai says. It took two years to put this legislation together and it has been called "the great experiment of the century", he notes.

The legislation called for restrictions on fertiliser use by local farmers and the protection of the reeds which support the lake's natural life. Households are enrouraged to use biodegradable soap rather than petrochemical-based washing detergents.

The steps taken so far have helped stem the deterioration of the lake's environment, but it is difficult to ascertain whether they are enough to undo existing damage. Two five-year plans launched by the prefectural government and extending from 1986 to 1995 both failed to achieve their targets for improvement in water quality. A third plan to 2000 is currently being carried out.

Shiga's measures to protect Lake Biwa will provide valuable experience in long-term efforts to balance economic development with environmental conservation.

On the other hand, the experience of Fukui prefecture, to tbe north-west, is a lesson in emergency measures to contain a pollution disaster that can affect the eronomic livelihood of a region in a matter of days.

Although Fukui prefecture is more rommonly associated with the Hokuriku region that runs along the Sea of Japan, it is a region that the Kansai business community hopes to hring into an enlarged Kansai economic region.

Last year, when a Russian tanker spilled its cargo into the Sea of Japan, the small town of Mikuni became the site of one of the worst oil spills in Japanese history. Oil was washed onto the scenic beach, devastating the seaweed catch that winter and dealing a severe hlow to the local tourism industry.

It was a disaster Japan, let alone the small town of Mikuni, was ill-equipped to deal with. "We had drawn up emergency procedures on how to deal with earthquakes hut nobody knew how to deal with an oil spill," recalls Masahiro Honda at Mikuni town hall.

To make matters worse, the Sea of Japan along the Fukui coast is very rough during the winter months. Waves up to eight metres high made the use of an oil fence impractical and for several days prevented work aimed at containing the spillage.

Eveotually, more than 40,000 volunteers from all over the country descended on Mikuni to clear up the mess, some using primitive ladles. The local community had decided against the use of chemicals for fear of the long-term damage it could do to the the fishing and seaweed industries.

The national government has many lessons to learn from the oil spill off the coast of Fukui. As Mr Honda points out: "A lot of tankers come to Japan, which is an oil-importing country. This is an accident that could happen anywbere in Japan."

HIGASHIOSAKA • by Charles Smith

A struggle to keep the heart and soul

Thousands of small businesses have given this industrial centre a proud record

Osaka has long been known for the massive concentration of heavy industrial complexes, ranging from steel, through shipbuilding to petrochemicals which line the Osaka Bay waterfront. But the bay area is far from being the only, or even the most typical example, of Kansai manufacturing prowess.

Tucked between the city of Osaka proper and Mount Ikoma, a forestsd ridge which divides Osaka prefecture from the ancient capital of Nara, is Higashiosaka (East Osaka), one of Japan's best-known centres of small-scale manufacturing.

Like half a dozen other mini-industrial communities dotted around Japan, Higashiosaka is struggling to adjust to the process of *kudoka* or "hollowing-out" of manufacturing indnstry sparked hy appreciation of the yen. The city now boasts nearly 9,000 small and medium-sized factories, making Higashiosaka one of the most intensively industrialised urban communities in Japan.

Manufacturing in the area dates back to the late Edo period, when workshops on the foothills of Mount Ikoma used hydro-electric power to produce decorative steel combs and other fashion accessories for the Osaka market.

Before the second world war, Higashiosaka had gained prominence as the nation's largest source of bolts and nuts for the shiphuilding and machinery industries. Ths city's other main claim to fame is that it plays host to the finals of the annual national high school rughy league, an occasion which has sparked a minor industry in the form of commemorative "rugby goods" that fans can take home.

While manufacturing is the heart and soul of Higashiosaka, the city is unlikely to strike a casual visitor as a typical industrial area. Most "factories" are huilt next to shops or houses, and 44 per cent employ no more than three workers.

Family companies in which the workforce consists of the company president and his wife in many cases date back to the 1960s, when a serious shortage of skilled workers in Japan made it easy for such workers to start their own businesses.

At the other end of the scale, only 10 per cent of Higashiosaka manufacturers employ more than 20 workers. A total of just nine locally-based manufacturers have their shares listed on either the Tokyo or the Osaka stock exchanges.

"Economy of scale is clearly not the outstanding virtue of a community like Higashiosaka but flexibility is," says Toshinori Shiozawa, an expert on Kansai regional industries at Osaka City University.

The strength of mini industrial communities like Higashiosaka, or the similar concentration of small companies in Tokyo's Ota ward, is that information flows freely and ideas can be turned into products far more quickly than in a conventional industrial setting.

That does not necessarily make for strength in high-tech industries such as industrial electronics, but it means that Higashiosaka is an excellent location for designing and developing niche products that may havs been ovsrlooked or ignored by larger companies.

Toshihiko Naruse, director of the Higashiosaka Chamber of Commerce and Industry, offers visitors a list of more than 100 local companies that claim the top domestic market share in one or more speciality products.

The "top share" thems was not so popular when I joined the chamber 30 years ago as s young staffer, says Mr Naruse. "In those days, Higashiosaka stressed volume rather than value-added, and many more companies worked as subcontractors to final assembly industries like motors or consumer electronics."

An example of the trend towards niche markets is Takenaka Seisakusho, s medium-sized company that specialises in rust-proof coated bolts and nnts for use in marine engineering.

Founded in 1935, Takenaka originally supplied steel bolts to the Japanese navy. After the second world war the company became a subcontractor to Hitachi Zosen, a leading Osaka shiphuilder, but in the late 1960s improvements in welding technology forced another change of direction. In 1972 Takenaka becams the first – and is still the only – Japanese company licensed to produce bolts for use in nuclear power stations.

The next big step came in the mid-1980s after a visit to the Houston offshore exhibition revealed a gap in the market for rust-resistant bolts to be used on oil rigs and other marine structures

"It took us five years to develop a coating which could withstand the friction in the thread of a marine nut," says the company's president, Hirotada Takenaka, "and another five to get international oil majors to specify our bolts" (Japanese heavy machinery makers had initially rejected Takenaka's sales approaches).

Help from a professor at Kyoto University was crucial because his links with former students at large chemical companies enabled Takenaka to place orders for experimental chemicals that normally would have been rejected as too small.

Takenaka'a niche position in the market for rust-proof marine bolta has not restored sales to the level they reached before yen-revaluation in the mid-1980s when the company was busy providing conventional bolts for oil refineries. Annual sales in 1996 reached Y3.4bn, compared with a 1983 peak of Y4bn, but profits at Y450m were double the 1983 level. Output volume provides another revealing comparison. Takenaka currently ships about 200 tons of products annually, compared with a peak of 2,000 tons, but unit prices for its bolts have risen almost tenfold.

Not all Higashiosaka companies have fared as well as Takenaka. In the past few years many companies making standard products from moulded plastic have been driven out of business hy low-cost competitors outside Japan, say officials at city hall. There will be more closures in the next three to five years – posing a problem for urban planners who have to find ways of filling gaps in the downtown area left by shuttered mini-factories and workshops.

But Higashiosaka itself is not dying. With a population that appears to have stabilised at around 520,000, and dynamic leadership from a handful of leading businessmen, the city seems well able to adjust to changes in markets and exchange rates. The next stage may be to exploit markets in new affluent regions of China and south-east Asia for some of the speciality goods that have fuelled the development of Higashiosaka's industry.

KYOTO • by Charles Smith

Reinventing a rich heritage

Ambitious urban projects are planned to revive the fortunes of an ancient city

Kyoto: home to more than 1,000 Buddhist temples Photo: JNTO

One of the big challenges facing the Kansai region is how to rebuild and develop cities which already boast the richest cultural and architectural heritage in Japan.

Kyoto, founded in 794 at the start of the Heian era, seems to present acute problems for urban planners. Home to more than 1,000 Buddhist temples and visited by more than 40m tourists annually, Kyoto is nevertheless in relative decline. The population is shrinking and unemployment is well above the national average, in part because the local textile industry has been experiencing hard times.

Faced with with the prospect that Kyoto may become increasingly sidelined in the race to attract investment and jobs, the city government sketched out an ambitious development plan in 1993 to build a secondary urban centre in industrialised south Kyoto leaving the older northern district much as it is today. Apart from building the first high-rise blocks in what has up to now been a low-rise city, the plan includes construction of a loop subway system that would allow people to commute from the city's southern suburbs and the old centre.

A senior official at the city's policy planning department says the plan could help to arrest a decline of up to 280,000 people in the city's population – from 1.46m to 1.18m which is likely over the next 25 years.

Officials also claim that a handful of big companies which have their headquarters in Kyoto – including Kyocera, the world's leading maker of integrated circuit ceramic packages and Nintendo the video game giant – are in favour of the project. Analysts say Kyoto's future depends heavily on attracting companies in knowledge-intensive industries to supplement declining traditional industries and the stagnant tourism industry.

However, the master plan for southern Kyoto is unlikely to be economically feasible while the property market remains severely depressed. Aside from market considerations there are political obstacles in the form of a bitter dispute between the conservationists and the local chamber of commerce and industry over plot ratios and building heights.

In two important cases however the city's powerful conservation lobby which is headed by the Kyoto Buddhist Association *Kyoto Bukkyokai* already seems to have been worsted by would-be developers.

In 1993, the city government "normalised" previously restrictive local planning regulations so as to allow the building of a 60 metre-high hotel in northern Kyoto – twice the previously approved height limit. (The Kyoto Bukkyokai challenged the decision in an unsuccessful civil case against the developer).

Soon afterwards Kyoto gave its blessing to a Y300bn ($2.5bn) project for the redevelopment of Kyoto Station. The building, generally considered the most ambitious project of its kind in post-war Japan, has a frontage of 480 metres and a height of 60 metres – making this second prominent exception to the city government's rule that no structure in central Kyoto should exceed 31 metres.

Height, however, is not the only point on which the conservationist lobby takes issue with city hall, Kojo Nagasawa, manager of the Kyoto Bukkyokai, points out that a large part of the floor space in the new station will be taken up by a hotel operated by JR West, the regional component of the recently-privatised national railway system, the project's main promoter.

Space has also been allocated to a department store to be operated by Isetan, a Tokyo-based department store company with JR West as a principal shareholder. "The city government claims that the station is being redeveloped to benefit Kyoto city and Kyoto residents," says Mr Nagasawa. "But the facts seem to indicate that the real beneficiaries are two companies from outside Kyoto."

The Bukkyokai's claim that the station building is an outsider's project is strongly rejected by city hall planners who say the building will help to revitalise Kyoto's economy. "We needed a gateway to help project Tokyo to the outside world," says Shigekazu Hoshikawa, director of the policy planning division. That certainly wasn't provided by the old Kyoto station building, a drab concrete building erected in 1950 after an earlier wooden structure had been destroyed by fire.

As far as the hotel and department store are concerned, Mr Hoshikawa notes that the station will give Kyoto a new commercial centre which hopefully will attract patrons from Nara and Otsu (the Shiga prefectural capital), respectively 30 minutes and 12 minutes away by train.

Kyoto's old commercial centre, the Shijo Kawaramachi shopping street a couple of kilometres to the north of the station is thought too provincial to meet the needs of a modern city of nearly 1.6m people.

Apart from the hotel and the Isetan store, the station building boasts a second department store aimed at young customers, theatres, a museum and restaurants. An air terminal one floor below the main station lobby offers check-in facilities for tourists boarding aircraft at Kansai International Airport, 75 minutes away.

Artistically, the new station may not match the spirit of old Kyoto but the boldly contrasted series of glass walls and vaulted steel structures making up the 480m long facade is nothing if not striking. The station design, by Hiroshi Hara a professor at Tokyo University's Institute of Industrial Science, was picked from a field of seven, including entries by French, German and British designers. Hara's building, says city hall, was the lowest of the seven entries, some of which included structures as high as 120m.

The Kyoto station building, the Kyoto Granvia hotel and the Isetan department store have just opened. At the least the project should reduce unemployment providing 3,000-4,000 jobs, many more than the old station.

PROFILE • Sharp

Life at the cutting edge

An ethos of innovation keeps the electronics giant ahead of the competition

Most people do not call to mind the push pencil when they think of Sharp, the electronics company based in Osaka. Although Sharp originated the push pencil in Japan, commonly called a Sharp pencil, these days the company is more closely associated with liquid crystal displays, the Zaurus personal digital assistant and video cameras.

In recent years, Sharp has become the epitome of the innovative company, one that can build on basic technologies to bring out new, creative products and beat the competition. Its strong focus on, and inspired use of, liquid crystal displays - the thin panels that make up the screen on notebook PCs and portable televisions - brought the world such useful tools as the camcorder with an LCD panel for a viewfinder and intelligent personal digital assistants that use pens and screens rather than a keyboard.

Since competitors have increasingly eaten into Sharp's LCD dominance, the company has been watched carefully for the next big product to confound its rivals.

But Sharp executives insist that there is still more to be made of the LCD that boosted its standing in the industry.

"LCDs are still developing," points out Taizo Katsura, executive vice president. "There are different types of LCD that are not yet developed sufficiently to be commercialised," he says.

For example, it is difficult to use standard LCDs in large panels but a new option - Plasma-Addressed Liquid Crystal (PALC) - is particularly well-suited to large flat panels. Sharp is working with Sony and Philips to develop this technology.

While LCDs are widely used for notebook PCs, because of the restriction on size imposed by the technology, they have not been used in many products that require large screens. As a result, with the advance of technology, "there is still tremendous growth potential for flat panels in areas such as PCs and large screen TVs", says Mr Katsura.

Likewise, Sharp believes other products, such as opto-electronic devices, will provide the company with further growth as the technology develops.

Sharp has leading technology in the opto-electronics used in digital recording devices - such as digital video discs which provide substantially increased recording times for audio as well as video - as well as MiniDiscs and the magneto-optical discs used for data storage.

Portable equipment is another area where Sharp has been investing considerable resources. The miniaturisation technology that all the Japanese electronics companies have developed is a major asset in developing mobile devices, such as lightweight mobile phones, which are seeing growing demand. Expertise in these areas will help maintain Japan's strength in the information age, in spite of the US dominance in areas such as software and networks, Mr Katsura believes.

However, one area Japanese companies do need to work on is the pulling together of the broader range of resources required to develop the increasingly complex new products that are in demand.

For example, the MiniDisc Camera, which is capable of putting 2000 pictures on a single disc, requires a range of skills, including miniaturisation technology and camera expertise, which could be scattered across the company, Mr Katsura explains.

Personal digital assistants capable of voice recognition, are another area that Sharp is putting considerable energy into. Voice-based input is far more user friendly than pen-based input, which is dominant in Japan where there is resistance to using the keyboard. Sharp has yet to bring out a product but the company has been working on the project in its R&D facilities and Mr Katsura is confident that a voice-based PDA will be available in less than 10 years. The key is to reduce the price of the technology and to improve voice recognition capabilities, he says.

At the same time, the company is working to build up software expertise, particularly in areas such as semiconductor software, operating software and application software that directly affect the hardware businesses. "The ratio of such areas in our business will increase since it is no longer possible to separate the hardware from the software," Mr Katsura says.

Companies such as Sharp, which need to remain at the forefront of technological development, are increasingly conducting R&D activities in many sites across the world, choosing the best locations for different technologies.

But, when it comes to doing business at home, Sharp finds that it is still necessary to maintain a significant presence in Tokyo, where information on national trends is most readily available and where national policy is formulated. As a result, Sharp has based its multimedia business in Tokyo, rather than its home town of Osaka.

The greatest advantage of being in the Kansai, Mr Katsura notes, is that it is close to southeast Asia, one of the most important markets for Japan in the years ahead. "A crucial issue for Japan's future is how to deal with, work with and develop relations with southeast Asia, not just as a manufacturing base but as a market. Kansai provides an advantage in that respect because it is Japan's window to Asia," he says.

The growing importance of Asia to Japanese companies is yet another manifestation of the global nature of competition in leading industries. But, while borders are disappearing across nations, as Sharp's multimedia experience suggests, even in an industry based on cutting edge technologies it is likely to be some time before information at home becomes truly barrier-free.

Michiyo Nakamoto

PROFILE • Daiei

Looking out for housewives

Japan's premier price-slasher is targetting the red-tape stifling the industry

It is perhaps fitting that one of Japan's most innovative retailers should have started out in Osaka, a city that is known for being a merchants' town and the 'kitchen' of Japan.

Daiei, the largest Japanese retail chain with 378 stores nationwide, grew from a single store, "The Housewives' Store," which was established by Isao Nakauchi 40 years ago.

What marks the retailer out is its aggressive strategy of expansion which has covered not only retail stores but hotels, shopping centres and even a baseball team - the Daiei Hawks based in Fukuoka on the southern island of Kyushu.

But the driving force behind Daiei's success has been Mr Nakauchi himself, the formidable founder who, after 40 years, is still actively engaged in the day-to-day running of the group as president and chairman.

Mr Nakauchi's deeply-held convictions about what constitutes good customer service has led the group on a crusade against the norms of the industry, whether it be pricing policy or a preoccupation with product brands.

"We have always felt that Japanese product prices were much too high and should be halved," Mr Nakauchi says. "Why do Japanese products have to cost twice as much as the same thing in New York?"

Daiei thus embarked on a campaign against Japan's notoriously high prices that made it a pioneer of discounting and of private brand products.

The introduction of private brand products was a way to develop the kind of products Daiei believed its customers wanted while at the same time bring prices down.

Its "savings" brand of orange juice went on Daiei' shelves at Y198 a time when other brands cost Y300. Daiei brought out its own washing detergent for Y200 against a Y400 price tag for other brands.

Daiei's strategy was particularly welcomed by consumers suffering after a sharp decline in asset prices plunged the Japanese economy into a prolonged slowdown.

Mr Nakauchi notes that Daiei is "just trying to reduce prices to their appropriate level". But in order to do so, he has had to do persistent battle with a web of regulations that have kept Japan's retailing industry insular and inefficient. In the process, the Daiei chairman has become something of a symbol of the fight against the status quo.

Like his Kansai compatriots, who are known to defy authority, Mr Nakauchi has not been afraid to break the mould of the successful businessman, by taking on bureaucrats and their stringent regulations which have kept Japanese prices high.

He has been an outspoken critic of the large scale retail store law, which imposes restrictions on the size of large scale retailers, their locations and opening hours.

Japanese safety regulations add to the list of outdated rules hampering the efficient development of the industry. "Emergency measures introduced ahead of the war are still in place and have become regulations. But the war is over and we must get rid of these," Mr Nakauchi insists.

Mr Nakauchi also rails against Japan's closed markets, a favourite theme among US producers. "Imports are not liberalised, so it is difficult to bring prices down to appropriate levels," Mr Nakauchi complains. "Deregulation is needed for this to happen. The authority of bureaucrats as well as all economic regulations must be relaxed."

Now that deregulation has become a stated government priority, Mr Nakauchi's contribution to the cause has paled somewhat. Instead, public attention has focussed on the problems that Daiei's strategy of expansion has left in its wake.

Although Daiei's low-price strategy met a need among Japanese consumers in the early years of economic stagnation, the market environment has since changed considerably. National brands have met the challenge by reducing their prices as well, robbing Daiei of a major advantage, says Toshiko Binder, industry analyst at HSBC James Capel.

"Daiei's strategy was to expand in order to strengthen its purchasing power but, as others reduced their prices, the negative aspects of its strategy became more pronounced," Ms Binder says.

Its strategy of rapid expansion through acquisitions has left Daiei with a debt burden of Y1,430bn and very high fixed costs. But since it cannot lay off employees "the question is how it can reduce costs or make more profits", notes Ms Binder.

Discount-store operation Hypermart's losses of Y8bn last year underlined the difficulties in today's Japan of a strategy based on low prices.

But Mr Nakauchi believes very strongly that, with the ageing of society, retailers such as Daiei and Hypermart will see greater demand. "People will want to have their daily needs satisfied nearby," he argues.

Mr Nakauchi appears unconcerned about the high level of debt and fixed costs Daiei is saddled with. The company has enough assets to balance its borrowings, he says, and also has plans to raise funds by listing some of its subsidiaries, such as Lawson, which runs 6,000 convenience stores in Japan and the Ala Moana Shopping Center in Hawaii. Rather than cut back borrowings, the company will balance them with new funds and apply to become Japan's first holding company, Mr Nakauchi says.

And Mr Nakauchi believes there are many more things Daiei can do to generate revenue. As the needs of consumers change, new types of businesses must be introduced. In its core business, Daiei plans to increase the ratio of private brands in its general merchandise stores, so that it can reduce prices even further, and is also expanding into the management of shopping centres, banking and gas station operations.

Sitting at the top of a Y2,500bn empire, Mr Nakauchi shows no signs of slowing down.

M.N.

INNOVATIONS • by Charles Smith

From the home of karaoke

Private sector enterprise culture cultivates particular inventiveness

When a tired Tokyo salaryman buys a bottle of Oronamin C, tbe popular pick-me-up drink, at a station kinsk the morning after a riotous evening at a karaoke bar, tbe chances are that he doesn't know that be is indebted to the innovating spirit of Kansai regioo for these life-enhancing amenities.

Likewise, tbe housewife wbo slips out of the rear entrance of tbe pachinko (pio-ball) parlour to exchange ber in-kind prize for hard cash at a discount store that theo promptly sells the prize back to the pachinko parlour may not realise that it was Kansai enterprise tbat made the transactioo possible.

The pacbinko-playing lady and and the tired businessmen are typical of the millions of Japanese wbose lives have been changed by Kaosai creativity. In a famous study published by the (Tokyo-based) Nomura Research institute in tbe mid-1970s, tbe five Kansai prefectures were identified as the source of 45 out of a total of 75 businesses originating in Japan during the 1960s.

Whether tbe region bas retained ita load since then is unclear. Kansai's relatively slow ecooomic growth from the the mid-1980s onwards might suggest a decline in vitality.

But Yoshioorl Shiozawa, professor of ecooomics at Osaka City University, thinks tbat grass roots inventiveness in the region is still very mucb alive.

The Kansai New Business Conference, an organisation of young and would-he eotrepreneurs sponsored by the Ministry of International Trade and Industry had 450 members at the end of 1996, while a similar organisation covering the much larger Kaoto region had 500 members.

Tha main difference between Kanto region aurrounding Tokyo wben it comes to innovations, says Mr Shiozawa, wbo admits to being biased in favour of his native region, is that technical innovations in the Kanto region are often the product of collaboration between private companies and the bundreds of publicly-funded research institutes that are located in Tokyo itself or in Tsukuba Science University, 50 km north of the capital.

"By comparisoo" says Mr Shiozawa "Kansai's economy is private-sector led".

Even the ambitious Kansai Science City *Konsai Bunka Gakujitsu Kenkyutoshi*, one of the Big Three projects designed to encourage growth in tbe region consists mainly of institutes sponsored and staffed by private companies.

"The private institutes at the Kenkyutoshi doo't talk to eacb otber enougb, so that the joiot efforts tbat have produced many tecbnology breakthroughs by Tokyo research laboratories aren't seeo so often," says Mr Shiozawa.

Oo the other hand the free-wheeling, practical Kansai lifestyle seems to provide a receptive climate for tbe rapid adoption of Innovations that only catcb on later in tbe conservative Kanto region.

Automatic ticket checking macbines, developed by tbe Kyoto-based Omron Corporation, were lo use on the Osaka underground system for years before the Tokyo municipal system got rid of its manual ticket punchers.

Tokyo, today, is a paradise for fast food addicts, but instant oodles aod bon curry – an instant curry said to have been inspired by a Swedish army recipe – both origloated from the Kansai region.

"By comparison with Tokyoites, Kansai people are impatient", suggests Shiozawa. "That tends to mean that time saving inventions take root more easily in this part of Japan".

Looking furtber back, Hankyu Corporation became the first private railway company in Japan to build a department store over a rail terminal, when its Umeda store was opeoed in 1929. Hankyu's lead was followed in succeeding decades by all the big Tokyo-based private railway companies. It was also an Osaka company which first published a daily sports newspaper (Sports News, a 1949 precursor of several popular titles now found on Tokyo news-stands).

Tbe Osaka brancb of a Tokyo life insurance company was the first to realise that the flat-topped roofs of clty office hlocks can be profitably converted into beer gardens. The Umeda Daiichi Semei building's rooftop garden which opened in 1954, is still popular with commuters about to head home from nearby Osaka Station.

> Millions of Japanese lives have been changed by Kansai creativity

Some of the more famous Kansai innovations have a curiously inconsequential air about them. In 1971, Daisuke Inoue, an amateur electone (electric organ) player at a Kobe club whose speciality was accompanying singing patrons was asked to attend a year-end office party to play for one of the clnb's regular customers.

Instead of going to the party, Mr Inoue recorded a taped accompaniment. He later founded a company, Crescent, which rented to clubs in the Kobe area tapes of popular song accompaniments and speaker boxes equipped with echo devices designed to flatter tha singer's volce.

Karaoke (literally "empty orchestra") became a household word in Japan and tha world. Surprisingly, Inoue now runs a company which makes cockroach traps but it was Crescent which provided tha seed from which karaoke was born, though it took others to introdnce many refinements to the system.

Sharp, an Oaaka-based electronics manufacturer, represents a very different model of Kansai innovation. Founded in 1915 to make propelling pencils, it huilt Japan's first mass-production radio receiver in 1925, its first television set in 1953 and, in the late 1960s, became the first Japanese company to market alectronic calculators heating Tokyo's Casio Computer Company.

The company'a strong suit is liquid crystal display technology used, for example, in the LCD Viewcan, a video camera. As a technological pioneer in consumer electronics, Sharp has a record which bears comparison with household names from the Kanto region – and a history that extends further back than any of its Kanto competitors.

Tatsuo Yamamoto, director geoeral of the Kansai New Bnsiness Conference, is certain the Kansai region can and will produce more Sharpa, but he acknowledges a big prohlem: as is the case in Kanto, innovation in the financial sector has failed to keep pace with progress in manufacturing and services.

To encourage a more risk-oriented attitude among investors, and to inculcate the tradition of business "angels", his group hopes to open a venture university which would offer courses for wealthy individuals (including housewives) on how to invest in emerging companies.

If it materialises, Mr Yamamoto's plan will be yet another example of Kansai setting a trend that the rest of Japan might want to follow.

FINANCIAL INSTITUTIONS • by Charles Smith

A history of individualism

Many institutions have moved to Tokyo, but more than 100 have remained

The Kansai region can claim parity with the Kanto district surrounding Tokyo as one of the twin birthplaces of Japan's modern financial system.

While venerable institutions such as Meiji Life Insurance Co, Japan's oldest insurance company, or the former (but now merged) Mitsui and Mitsubishi Banks have their roots in Kanto, Kansai's vibrant commercial environment gave birth to two of Japan'a top five "city" banks, Sanwa and Sumitomo. Kansai can also claim parentage of the nation's leading life insurance company, Nippon Life, and the Nomura financial aervices group from whicb Daiwa Bank and Nomura Securities Company are both descended.

Even today, the Kansai connection suggests individualism and eotrepreneurship whereas banks and other financial institutions that hail from the Kanto area are reputedly more conservative. But the days have long since passed wben Kansai banks operated primarily on their home territory.

While Osaka, Kobe and other major cities of western Japan are vitally important retail and corporate banking franchises for banks such as Sanwa and Sumitomo, both institutions now conduct much of their wbolesale and international businesses from Tokyo. The same is true of Nomura Securities which has been legally headquartered in Tokyo since it emerged as the dominant Japanese securities company.

Daiwa Bank differs from other major Kansai institutions in devoting the bulk of its domestic sales efforts to sonth-western Japan. The bank has 121 branches in Kansai, twice as many as in Kanto and is "main" bank to the Osaka prefectural government. Even so, Daiwa admits to pursuing a dual business strategy under which Tokyo is the base for most international operations.

While many top ranking Kansai institutions bave long since shifted sections, or most, of their head office function (though not usually their legally-registered headqnarters) to Tokyo, more than 100 financial institutions remain headquartered in the region.

The abundance of smaller banks serving the region reflects the weight of small and medium-sized manufacturing companies in the Kansai economy, according to Yasuyuki Tominaga, a general manager at the Daiwa Rank Research Institute in Osaka. Bank credit provided the primary source of finance for the dynamic growth of the region's industry in the 1950s and 1960s.

However, economic stagnation following the appreciation of the yen against the US dollar as a result of the 1985 Plaza agreement may have left Kansai seriously overbanked.

As of the end of January 1996 Kansai was bome to 54 local credit associations' *(shinyo kumiai)* whose outstanding loan balances totalled Y6.09 trillion – 32 per cent of the national total for loans extended by this type of institution.

Credit associations lent heavily to real estate developers during the 1988-1990 asset bubble which saw property values in Osaka rise by more than 250 per cent in just over three years. Osaka bank analysts say that the associations got deeply involved in the real estate bubble in part because tbey were not covered by national regulations that controlled bank lending on real estate from tbe late 1980s onwards. The collapse of the hubble in 1992 led to a proliferation of non-performing loans whicb in turn sparked a series of failures and forced liquidations among credit associationa and "secood tier" local banks.

The worst casualty in the post-bubble shakeout was Kizu Shinyo Kumiai, an Osaka-based credit association which failed in August 1995, leaving the government to compensate individuals holding more than Y1 trillion wortb of deposits. In December 1996 tbe Kansai region received another hlow to its self-confidence when the Ministry of Finance ordered the closure of Hanwa Bank, a Wakayama-baaed institution whose auditors had refused to aign off on the bank'a half-year business statement.

As witb Kizu, Hanwa depositors have been promised compensation out of a special fund created as part of the government's recent reform of the bank deposit insurance system. If the fund falls short the Ministry of Finance will "guarantee" repayments, meaning that national tax money will be used to pay off depositors.

Officials in the business finance division of the Osaka prefectural government, who are responsible for regulating credit associations but not local hanks, say that heavy write-offs or bad loans in the 1896-1997 fiscal year may have reduced the risk of further credit association bankruptcies. However the introduction from April 1998 of a "prompt corrective action" system for all deposit-taking institutions could force the government to close credit associations whicb fail to meet pre-set capital adequacy standards.

Tha prefecture has tried to encourage national level financial institutions, including city banks to absorb the sound assets of credit associations while doubtful assets are liquidated by a government-funded resolution trust corporation. The trouble, admits an official, is that such deals usually depends on a prior business relationship between the credit association and the bank making the acquisition.

So far only two marriages have been arranged between city banks and Kansai-based credit associations. One involved Sakura Bank, a Tokyo-based institution with a strong presence in Kobe. In the other case, the white knight was Tokai Bank, the dominant financial institution in Nagoya.

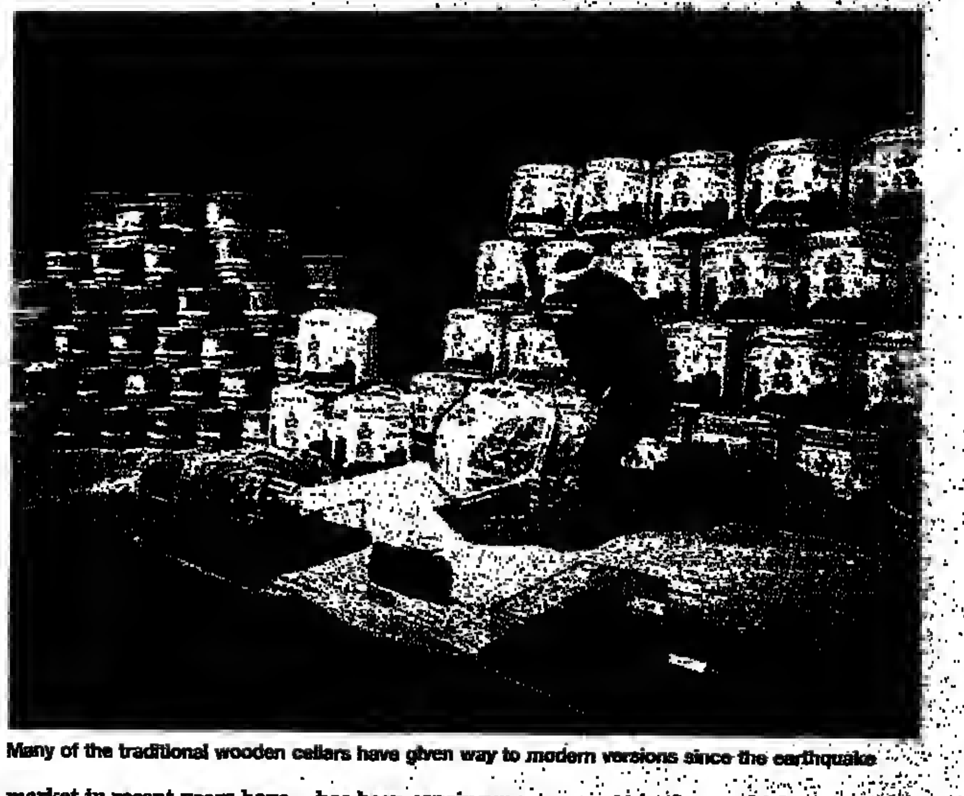
The gulf between the vulnerable local financial institutions and dynamic Kansai banks which have shifted much of their business to Tokyo suggests the need for reform of the system under which the Ministry of Finance snpervises banks while credit associations remain the responsibility of local authorities.

Osaka bank supervisors say they have tried to persuade the Ministry of Finance either to assume responsibility for local credit associations or to help establish a publicly-sponsored *ukazara kaisha* (saucer company) which would absorb sound assets of credit associations that are unahle to merge with banks. MoF officials are interested in the proposal but a final decision is unlikely before April 1998 when the introduction of "prompt corrective action" will create fresh pressures for hard-pressed local financial institutions.

THE BREWERS OF NADA • by Michiyo Nakamoto

Sake is no barrel of laughs

The future of Japan's national drink becomes clouded by changing tastes



Many of the traditional wooden cellars have given way to modern versions since the earthquake

Blessed with clear waters that spring from the nearby Rokko mountains, plentiful rice crops and proximity to the ocean, the region of Nada, in Hyogo prefecture, has become Japan's pre-eminent supplier of its national drink, sake.

Nada is renowned throughout the country for its dry and flavoursome sake; many of the bigest names in the industry, from Gekkeikan – Japan's largest sake brewer – to Kikumasamune and Ozeki, are based in the region.

Nada's rise to prominence in sake brewing, which dates back to the 17th century, owes mnch to its location in Kansai, the "kitchen of Japan". The region supplied Edo, the old Tokyo, with gourmet dishes while Nada supplied the country's capital with its alcoholic beverage. Nada's natural environment provided plenty of pure water, low in iron content, and was ideal for growing the big grain rice that is so well suited to the brewing of sake.

"The plentiful water in Nada meant that it was possible to use watermills to polish the rice grains, while the low-iron content of the Rokko waters meant that it was particularly well-suited to sake production," says Kazuhiko Yamaguchi, managing director of the Nadagogou Sake Brewers' Association.

Nada seems secure as Japan'a leading sake region, supplying more than 30 per cent of the domestic market, but changes in the home market in recent years have been troublesome.

The Hanshin-Awaji earthquake of 1995 destroyed all of the centuries-old cellars in the region, including a few national treasures. Only two brewers have renovated their old wooden cellars, although most of the others have built new ones. And although the earthquake led directly to the closure of just one brewer, the impact of that devastation continues to be felt.

Mr Yamaguchi suspects that up to 10 of the 48 concerns which belong to the association have stopped brewing their own sake, insteading buying in liquor from others brewers and marketing it under their own brands.

But it is a change in Japanese eating habits that has been causing most concern to the sake companies. Sales of sake have fallen 30 to 40 per cent since the 1960s and 70s as the Japanese people have developed a taste for western alcoholic drinks in line with their growing consumption of western foods.

Consumption of sake in Japan has fallen from 1.7m kilolitres in 1975 to 1.3m kilolitres last year, and sake's share of the market has fallen from 27.4 per cent to 13 per cent over the same period.

Industry officials also bemoan the fact that many consumers – especially among younger drinkers – are moving away from drinks with a high alcohol contect such as sake towards beer and wine or spirits which can be mixed with soft drinks, such as *shochu* or whisky.

Sake brewers, including those in the Nada region, are now experimenting with products that have a lower alcoholic content. Attempts are being made to reduce the alcoholic content of sake to about 12 or 13 per cent while maintaining quality.

The industry is also looking at the possibility of expanding exports overseas. The Sake Export Association, which was set up by 18 breweries nationwide, was launched earlier this month in an effort to stimulate exports.

With the greater penetration that is expected from whisky and other western spirits, following a lowering of tariffs by the Japanese government on October 1, the sake brewers of Nada continue to face a significant challenge ahead.

An old culture of innovation

Continned from Page 1

that breaking apart aa an independent administrative unit is an idea tbat "we haven't given up as an ideal."

The massive public investment that has given Kansai an impressive new international airport, a world-class science park, new bridges and amusement facilities, goes a long way towards strengthening Kansai's cbances of bacoming tbe self-reliant, independent and dynamic regioo it aims to be.

"With the opening of tha Kansai International Airport, international relations will no longer be the monopoly of Tokyo," say Shigeru Matsushita, director and senior economist at Sanwa Research Institute and Consulting.

More needs to be done to ensure that private businesses, rather than public projects, become the key drivers of economic growth. Steps are being taken to promote venture businesses, encourage foreign direct investment and international exchange and focus energies on the development of software, auch as multimedia content, which is expected to be a pillar of economic growth.

Kansai also is busy building relations with its neighbours in Asia, a region to which it sent more than half of its total exports and from which it derived more than half of its imports.

As the results of these efforts gradually come through, the region will no doubt continue to put its characteristic inventiveness and bravado to good use and, like Nintendo which brought the world the home vidao game, develop new products and services with sufficient appeal to create entirely new markets.

Kansai's economic standing today might not quite live up to its own self-image. But most people would agree with the comments of one long-time resident of the region. "Kansai has a culture of doing things differently," he says. "And as long as it retains that culture, it will be all right."

Panama

When the US pulls out in 2000 after nine influential decades, the country will have to carve out its own economic and political future. **David Pilling** and **Sally Bowen** report

The final wave of a long goodbye

On the surface, at least, the Panama of 1997 is unrecognisable from the country run according to the whims of General Manuel Noriega less than 10 years ago.

Since "Operation Just Cause", as the US invasion of December 1989 was called, Panama has sought to improve its international reputation under two elected presidents – a welcome change in a country that had previously endured 21 years of military dictatorship.

In 1994 it took the almost unprecedented step of abolishing its own, discredited, armed forces. More recently, under the presidency of Ernesto Pérez Balladares, it has begun the process of deregulation and privatisation, and has lowered tariffs sufficiently to gain entry to the World Trade Organisation.

As US troops are withdrawn in the run-up to 2000, when Panama will for the first time be given control of the canal, the country has taken other tentative steps to clean up its image. It has gone some way towards reassuring international shippers that the canal is in safe hands by passing legislation ostensibly to protect the canal's administrators from political interference (though nominations to the board that will run the waterway after 2000 have raised concerns about possible nepotism).

The government has also set up a "financial analysis unit" to track the flows of laundered money that have traditionally been siphoned through the offshore banking centre and the Colón Free Zone. It is about to tighten up lax banking supervision and establish international levels of capital adequacy.

Economically, the country has gone through a rough patch, but things are picking up. This year, growth is approaching 4 per cent against an anaemic 2.5 per cent in 1996 and only 1.8 per cent in 1995.

The better performance is being partly fuelled by foreign investments in newly privatised industries. In May, Cable and Wireless, the UK-based telecoms company, paid $652m for 49 per cent of Intel, the state-owned operator. It intends to invest $500m in upgrading the system. Foreign investments in ports have dramatically improved efficiency, enabling Panama to win trans-shipment business from other regional hubs.

Panama, which ran a small budget surplus last year, is attempting to streamline its $7bn foreign debt, the servicing of which accounts for nearly 30 per cent of government revenues. Last month, it issued $700m of 30-year global bonds and retired $800m of mainly Brady-bond debt. After signing a Brady deal in July 1996, it cemented its return to the international markets this January by securing a sovereign credit rating just below investment grade.

But if these are signs of positive change, much in Panama has a more familiar ring. Mr Pérez Balladares, although cleanly elected in 1994, heads a reconstructed Revolutionary Democratic party (PRD), the self-same party that held sway during the Noriega years. Many in the current administration, including Mr Pérez Balladares, served under former military governments.

Praise for the president's economic reforms aside, there is unease about his apparent desire to seek re-election in 1999 by amending the constitution. While better economic news boosted the president's approval rating to 60.9 per cent in September, only one in three people polled said they favoured a second presidential term.

Mr Pérez Balladares admits it is debatable whether Panama's young democracy is sufficiently sturdy to withstand constitutional tinkering. "I don't want to do anything to jeopardise democracy," he says.

A united opposition could probably rally enough public support to block constitutional change, which must be ratified by referendum. But it was disarray among opponents of Mr Pérez Balladares that facilitated his election in 1994.

Ricardo Arias Calderón, a vice-president under the previous administration, worries that Panama's institutions are too flimsy to counterbalance a well-entrenched president. "The history of Latin America has taught us that re-elections are one of the biggest dangers to democracy," he says.

Mr Arias Calderón points to the weak and hopelessly overstretched legal system and to the press which, though far freer today than during Panama's military past, is not immune from official pressure. The government last month found a pretext to expel a Peruvian journalist whose investigations had proved embarrassing to the administration.

At least one cabinet member acknowledges the apparent discrepancy between the expulsion of a critic and the willingness to grant exile to several former Latin dictators. "Our reputation as a dustbin of the world does hurt," he says.

Panama faces two main hurdles in the coming years. First, it must develop and diversify its service-based economy, one that has relied heavily on a US presence worth an estimated $350m in annual revenue. After 2000, the US will be gone and Panama will have to find productive uses for reverted military areas in the narrow strip along the canal. After a slow start, the Panamanian body in charge of the process says it has secured $800m in private investments in activities including tourism, oil services and manufacturing assembly. There is still a long way to go.

The reverted areas aside, Panama needs to diversify away from its economic mainstays: the canal, the Colón Free Zone and offshore banking. In spite of a $1bn expansion plan, the canal is nearing capacity and will need billions of dollars invested in a third set of locks if it is to keep pace with the world's shipping fleet. Likewise, there may be less demand for its free zone and offshore banking facilities as other regional states liberalise their economies.

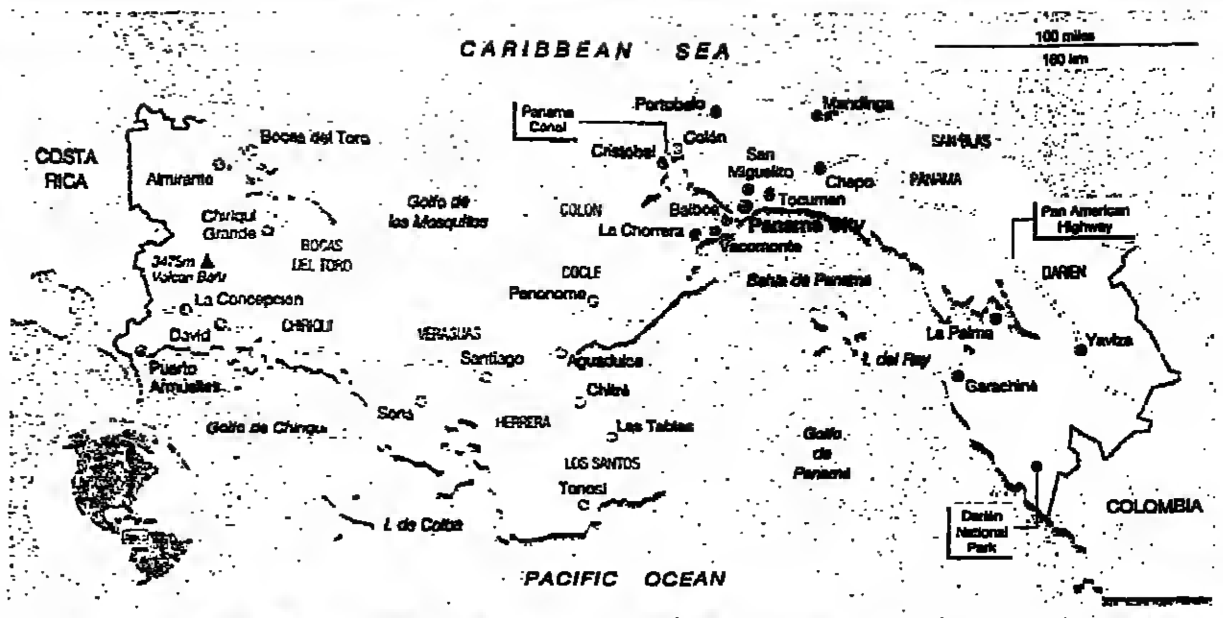
Hopes for diversification rest largely on shipping services, and on the nascent mining and tourism sectors, though the latter could be hampered by the territorial claims of indigenous communities. New export industries, such as shrimp farming and production of high-quality coffee, are developing, but exports still account for less than 10 per cent of gross domestic product.

Predictions by Guillermo Chapman, planning and economy minister, that Panama will be growing at recent south-east Asian levels by 1999 look optimistic. Yet without this kind of growth it will be hard to tackle the widespread poverty that exists in spite of Panama's middle-income status. Wealth is heavily skewed even by Latin standards: to walk through Panama City, says one observer, is to visit Switzerland and Haiti in the same afternoon.

Panama's second, related, challenge is to carve itself a national identity as 90 years of US tutelage come to an end. In spite of the vocal opposition of some Panamanians, most still favour some sort of continued US presence. Both governments are discussing the possibility of US troops being stationed in a multilateral drug interdiction centre at Howard Air Force base.

The imminent reduction of US influence has already unleashed a jostling for position by other powers, notably China and Taiwan. Both have investments in strategic ports, and Taiwan is a strong backer of the administration. Panama's invitation of Lee Teng-hui, Taiwan's president, to a conference on the future of the canal last month prompted an angry response from Beijing. Washington is keeping a close eye on such frictions.

Panamanians have even begun to joke about the era of Uncle Sam giving way to one of "Uncle Chang". But behind the bravado lies a certain unease about life without the US. "The average citizen wants some sort of US presence so we can sleep without nightmares," says one Panamanian official. "We've been living with a sentry in our back yard and it has given us peace of mind."



■ **Area:** 75,517 sq km

■ **Population:** 2.73m (1997 est)

■ **Currency:** 1 balboa (B) = 100 centesimos
Rate v $: $1=B1 (fixed rate)

■ **Language:** Spanish. However some English spoken in business centres

■ **Main towns and population** (1990 census)

Panama City (capital)	413,505
David	65,763
Colón	54,654

Constitution

• **Official name:** Republic of Panama
• **Form of state:** Presidential democracy with Legislative Assembly and independent judicial system
• **The executive:** President is head of state, elected for a period of five years by universal adult suffrage; there are two vice-presidents (Tomas G Altamirano Duque and Felipe Alejandro Virzi) and a cabinet appointed by the president
• **National legislature:** Legislative Assembly, 72-member unicameral legislature, directly elected by adult suffrage for a period of five years
• **Legal system:** The president proposes judges for the Supreme Court; they are approved by the Legislative Assembly to sit for ten-year periods; system of appeal originates in courts of first instance, rising to the Supreme Court at the apex
• **National elections:** May 8 1994; next elections due in May 1999
• **National government:** Ernesto Perez Balladares was sworn in as president in September 1994, after winning the May elections with the backing of a coalition led by the Partido Revolucionario Democrático (PRD); the PRD and its allies have a slim majority in the Legislative Assembly
• **Main political organisations:**
Pro-government -
PRD; Partido Solidaridad; Partido Laborista; Partido Liberal Republicano
Opposition -
Coordinadora Democratica Nacional (CDN) alliance, comprising the Partido Arnulfista; Movimiento Liberal Republicano Nacionalista (MOLIRENA); Partido Liberal Autentico; Partido Liberal Nacional; Partido Renovación Civilista; Partido Demócrata Cristiano; MORENA
Ambivalent -
Movimiento Papa Egoro

Sources: EIU; Europa; Datastream/ICV

Economic summary

	1996 Estimate	1997 Forecast
Total GDP ($bn)	7.9	8.3
Real GDP growth (annual % change)	2.5	3.5
GDP per head ($)	2,955	3,049
Inflation (annual % change in CPI)	1.3	1.6
Industrial production (annual % change)	-2.5	4.0
Unemployment rate (% of workforce)	14.1	12.0
Money supply, M1 (annual % change)	3.5	8.0
Foreign exchange reserves ($bn)	0.9	1.0
Government expenditure (% of GDP)	20.3	23.3
Total foreign debt ($bn)	7.0	7.5
Current account balance ($bn)	-0.4	-0.5
Merchandise exports ($bn)*	6.1	6.5
Merchandise imports ($bn)*	-7.2	-7.6
Trade balance ($bn)	-1.1	-1.1

* includes imports to and re-exports from Colón Free Zone

Main trading partners (share of total trade to world, 1995)

Exports		Imports
35.9%	EU	5.8%
20.7%	US	12.5%
3.7%	Japan	39.6%

INTERVIEW: PRESIDENT PEREZ BALLADARES • by David Pilling

With clear ambitions

The president says most goals have been met but he may run for office again

Ernesto Pérez Balladares: economic turning point *Colin Beers*

● **David Pilling: Your party has been characterised as centre-left, yet yon have carried out a fairly comprehensive liberalisation programme.**

● **President Ernesto Pérez Balladares:** We stand for liberal economic policies with a social content. We believe in economic growth in so far as that translates into improving the well-heing of the people. We believe things that can be done by the private sector should be done by it so the government can use its scarce resources to do things that otherwise would not be done.

● **DP: In 1999 bow will we know whether your presidency has been successful?**

● **EPB:** I think I've completed at least 80 per cent of what I said I would do. There's really one hig issue remaining and this really doesn't depend mnch on me, but rather on the economic situation and on the economic restructuring working itself out. This is the aspect of lowering unemployment [of 14.1 per cent].

● **DP: What is the 80 per cent you believe you have achieved?**

● **EPB:** Basically to re-establish general well-being. We inherited a very run-down government and had to establish an investment programme in the major [social] areas that were unattended. We also bad to restructure our national economy.

● **DP: Why bas economic performance been so disappointing in recent years?**

● **EPB:** There has already been a turning point. We have had good growth [this year] and hopefully by year's end we will be growing at 3.5 to 3.7 per cent in real terms. Next year we hope to be doing better than that: averaging 4.5 to 5.0 per cent.

● **DP: Bnt wbere do see that growth coming from?**

● **EPB:** It is coming from the external links of our economy. For instance tbe growth [of trade througb] the Colón Free Zona is linked to the economies of Latin America, which are recovering from the Tequila effect [after the Mexican devaluation of 1994]. It's also coming from the industrial sector. It's coming from the service industries, hut basically it's related to our export of services. Then there's been a relatively stable growth of industries that have a lot of growth internally, like construction.

● **DP: Panama was the last Latin American state to join the World Trade Organisation. What are tbe conseqnences of membership?**

● **EPB:** Import tariffs have been lowered to 10 per cent on some items, but not across the board yet, though we are looking forward to the day when we can have a flat rate. The drawbacks are the same as those that can happen to any economy when it opens up: there's going to be a reallocation of resources, and certain industries are going to become more competitive while others will become less so. There will he shifts in employment from some sectors of the economy to others.

● **DP: It has been suggested yon are seeking a second term. Is there a possibility of changing the constitution to allow for this?**

● **EPB:** This is an idea being put forward by my party. I have not yet made up my mind. A referendum is the only way to do it constitutionally in Panama.

● **DP: What will make up your mind?**

● **EPB:** There are a number of factors involved. The first is the possibility of ensuring all the changes we have made... are not going to be reversed. That's a factor in the colnmn of going for a re-election. A factor against re-election is the judgment on my part as to the strength of Panamanian democracy: I don't want to do anything that would jeopardise that.

● **DP: In the year 2000 the canal reverts to Panamanian control. How can you assure the international commnnity it will be properly managed after that?**

● **EPB:** In fact the canal is already being run by us. The administrator is a Panamanian and close to 93 per cent of the labour force is Panamanian. The rest of the labour force – that 7 per cent – is probably going to remain with us after the year 2000 hecause many peopla want to keep their jobs and we have no interest in displacing them. Second, we have done everything necessary to make sure the canal operates as it has operated since its inception. And third, we have been very clear in our determination to keep the canal operation away from party-politics.

● **DP: When the canal is run hy a separate Panamanian entity, that surely is only one step away from it being privatised. Do you foresee that happening?**

● **EPB:** No. I don't at this time. We don't see that as a necessity. On the contrary, the canal doesn't draw upon national hndget funds to operate. We see the private use of land and waters around the canal [in the so-called reverted areas] as a different operation from the canal itself. And those are heing privatised. We separated the operation of the canal – the transit of ships from one ocean to the other – from the use of land.

● **DP: Why the resistance to privatisation?**

EPB: No, no. There's no resistance. It's just that we don't see any reason to do it. Nobody has shown me any model that would be more efficient than the one we already have.

● **DP: Panama has a repntation as attracting drug money, laundered money, a repntation for heing far from entirely transparent.**

● **EPB:** We have already done many things and have been recognised worldwide in our fight to clean up the use of our banking facilities by international crooks. As a matter of fact, we have become a model for many other Latin American countries... We have just concluded a congress on money laundering, on our experience which we shared with other countries including the US which is, by the way, the worst money laundering centre in the world.

The political stakes remain high as arrangements for the canal's return in December 1999 take shape. As well, commercial [illegible] could sprout on the land formerly occuped by US bases *Jon [illegible]*

POLITICS • by Raymond Colitt

An elusive and difficult balancing act continues

The lack of a democratic heritage has led to troubles in reconciliation

Eight years after Panama embarked on a path towards democracy, leaving behind 21 years of military rule, there are no indications of an abont-face that could lead the country to revert to dictatorship.

The military was abolished by constitntional amendment in late 1994 and the national police force is entirely subordinate to civil anthority and largely respectful of human rights.

The return to constitutional rule and the separation of state powers was orchestrated by the government of president Guillermo Endara, who was victorious in the 1989 election but only able to take up his position after the US invaded and ousted general Manuel Antonio Noriega later that year. Mr Endara also oversaw the first free elections in many decades.

Yet, as Mr Endara admits, his government's reform agenda was curtailed by the need for peace and political stability after the invasion. "My government was a contradiction. My party is revolutionary and nationalist and my government was neither," he laments.

Ernesto Pérez Balladares, Mr Endara's successor, has been more sncccssful in pushing through economic reform than his predecessor, due in part to an alliance with two smaller parties that gives him a working majority in parliament. Yet he has been less successful in creating an environment conducive to political reconciliation and continued democratic consolidation.

"The government lacks tha culture of democracy. There's a tendency of imposition, autocratic rule and manipulation of the media," says Ricardo Arias Calderón, a Christian Democrat former vice-president.

"The transition to democracy is incomplete. The government is not helping to sow tha seeds of a grassroots democracy," adds Italo Antinori, the newly elected ombudsman, who has accused the government of undermining his position as an autonomous watchdog of the public sector.

The ruling Democratic Revolutionary party (PRD) was the party of the military dictators, and Mr Pérez Balladares, a US-educated former bank executive, nicknamed El Toro (the bull), was finance minister under general Omar Torrijos, who renegotiated the Panama canal treaty with the US in 1977. The party was tainted by buman rights abuses, corruption, and the misuse of state powers under General Noriega's rule in the 1980s.

Following the fall of the Noriega regime, Mr Pérez Balladares managed to revive the PRD and convert it into the country's strongest political force. Yet, despite claims that his party has reformed itself, the Pérez Balladares administration has not managed to shake off the image of its chequered past.

In a move calculated to unnerve critics, the government recently announced the expulsion of a Peruvian investigative journalist, Gustavo Gorriti, who repeatedly uncovered government corruption in the daily *La Prensa*.

Mr Gorriti's investigations prompted president Pérez Balladares to admit to having received campaign donations from the Cali drug cartel, though the president denies having known about it. The US embassy in Panama City said the government's decision to revoke Mr Gorriti's residency permit raises questions about Panama's commitment to freedom of the press.

Mr Pérez Balladares is said to have pnt pressure on other newspapers to have critics of his government fired as well. As he and his family have gained control of the majority of the television industry through their stake in the media group Medcom, he will be in a position to wield considerabla media inflnence in the future.

This power could benefit Mr Pérez Balladares in his attempt to amend the constitution through a referendum, allowing him to run for a second term in 1999. For the referendum to go ahead, the constitutional reform proposal would have to pass parliament in two consecutive periods, once in 1997 and once in early 1998. While likely to garner enough support in parliament, Mr Pérez Balladares remains 18 percentage points short of winning the referendum in the polls. The most recent trends are in his favour, however, as he gains greater support with each poll and Mr Pérez Balladares, considered to be a skilled campaigner and strategist, is expected to step up public spending to boost the government's image.

The proposal has drawn heavy flak from his political opponents. "Latin American history has shown that reelection has been the largest threat to democracy. Unlike a federalist or parliamentary system, there is no balance to a strong presidency," says Mr Arias Calderón. He says this is especially true in Panama where democratic institutions are still weak.

The performance of the current administration will not only determine the reelection possibility of Mr Pérez Balladares but also the credibility of the new democratic system. There is a growing perception that it has failed to bring social equality to Panama, which has one of Latin America's most unequal systems of income distribntion. Economic reform is generally perceived to benefit the élite.

"People thought that economic injustice would disappear with the fall of the dictatorship," says Leopoldo Neira, a political pollster and consultant. "But that has not happened." For example, critics say the lowering of tariffs on consumer goods has widened the profits margins of a few importers, rather than bringing down the cost of living for all.

This incipient disillusionment, which is heightened hy a lethargic and inaccessible judiciary, could potentially discredit and slow future economic reform, some analysts say.

"They are implementing economic reform without political reform, which is like running an engine without oil – it will overheat and grind to a halt," says Miguel Antonio Bernal, a law professor who has demanded an investigation for alleged corruption be conducted on the PRD-dominated administration of the National University of Panama.

An attempt to bridge the differences between opposition parties – differences which cost them the last election – in order to defeat Mr Pérez Balladares at the polls, is led hy the populist Arnulfista party. Its leader, Mireya Moscoso, who lost to Mr Pérez Balladares by 4 percentage points in 1994, is likely to be the candidate of the common opposition front.

The front would probably to include the liberal Molirena party, which placed fourth in 1994, as well as five or six smaller parties, currently with only one seat in parliament each. The third strongest party, Papá Egoró, the movement of the salsa star, Rubén Blades, who declined to run in the 1999 presidential race, may join the pact as well.

Mrs Moscoso makes no attempt to differentiate herself from the autocratic, caudillo-style leadership of her late husband, who was ousted three times from the presidency by coups and allegedly defeated by fraud another three times. Her party does not oppose market-oriented reform but argues for citizen participation in the sale of state assets. She is nearly tied in the opinion polls with president Pérez Balladares, followed by the mayor of Panama City, Mayin Correa.

More important than the outcome of the elections for Panama's fledgling democracy, says Ebrahim Asvat, an influential corporate lawyer, is that they are fair and free. "The key is whether the PRD, which rigged elections in the 1980s, can now hold free elections."

Gross domestic product

Preliminary estimates

Origins of GDP 1996	% of total	Components of GDP 1996	% of total
[illegible]	[illegible]	[illegible]	[illegible]
Manufacturing, mining	9.9	Government consumption	[illegible]
Construction	[illegible]	[illegible]	[illegible]
Transport, communication	12.3	Stock building	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Finance	11.1	Imports of goods & services	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Total incl others	100.0		

Source: [illegible]

ECONOMY • by David Pilling

Out of recession safely

The government has shown prudence, but there is little room to play with

When a former Panamanian president of the 1940s tried to introduce new notes bearing his own portrait, the population refused to accept them as legal tender. Instead, Panamanians preferred what had been – and remains – the country's official currency since 1904: the US dollar.

The fact that Panama has never had its own tender – and more particularly that its governments have never had recourse to a printing press – has spared it from many of the scourges that have plagued other Latin American economies. Money supply is determined by capital flows and the balance of trada, removing from government the monetary discretion that has been the undoing of so many profligate administrations.

Inflation, which ran at 1.1 per cent last year, has consistently been the lowest in the region. Consumers and businesses have traditionally had access to credit, a luxury in a continent prone to hyper-inflation.

Panama's reputation for relative economic stability, plus the overarching fact of the canal and the US presence, has cemented its role as a service economy based largely on the trans-shipment of goods, licensing of the Panamanian flag to foreign-owned merchant ships, the huge Colón Free Zone and offshore banking. The service sector accounts for more than 70 per cent of gross domestic product: it so dominates that errors and omissions have sometimes figurad larger on the national accounts than exports. Manufacturing, mining, utilities and construction together make up only around 20 per cent of GDP.

In per capita terms, this somewhat lopsided development has been largely to the good: at about $2,900 per annum, Panamanians have the eighth highest average income in the continent. But wealth distribution is among "tha most unequal in the hemisphere", according to a World Bank report, which says that two-fifths of the population lives in poverty. Unemployment is put officially at 14 per cent, and may be higher still. The bank characterises the economy as "highly segmented between its dynamic, internationally-oriented service sector and the domestically-oriented sector beset with policy-induced rigidities and low productivity".

The government has set about softening those rigidities with an orthodox liberalisation programme, including deregulating labour markets, lowering tariffs and opening up swathes of the economy to foreign capital. Erneato Pérez Balladares, the president, concedes there will be losers as well as winners in this process. "There has been a serious commitment to economic reform," says a local banker. "Panama is trying to drag the economic structure into the 21st century."

The administration has managed the economy prudently, but there is not much room to play with. A $7bn external debt forces the government to devote nearly 30 per cent of revenues to debt servicing. Concerns associated with the debt pile, built up through arrears during and after the Noriega years, have been partially addressed through the conclusion in 1996 of a Brady deal that replaced $4bn of commercial bank debt with new Brady bonds. Last month, the government further improved its standing by issuing $700m of 30-year bonds and retiring $800m of mostly Brady debt.

Debt-service, however, remains "a high cost we have to bear", according to Guillermo Chapman, planning and economy minister. "But with the growth we are forecasting, this level of debt-service will soon begin to come down." Moody's, which recently awarded Panama a sovereign rating of Ba1 – one notch below investment grade – agrees the foreign debt is "manageable, provided the government maintains a high degree of fiscal discipline". The track record is encouraging: in two of the past three years there has been a slight fiscal surplus, while the government has taken the unusual step of passing a law forbidding the spending of privatisation revenues.

As for growth, a stronger than expected first-half performance has led the government to raise its estimate for 1997 to some 4 per cent. Marco Fernández, an economist at the Indesa consultancy, says this is "no great shakes" compared with some fast-growing Latin economies. Mr Chapman counters that growth is going in the right direction after a few years when the economy was "dropping like a safe thrown out of a tenth floor window". He believes that, as the economy orients itself in response to deregulation and privatisation, it will be able to achieve sustainable growth of south-east Asian levels.

Privatisation, as well as injecting cash into the economy, has clearly brought efficiencies. These are strongly in evidence in the ports, where foreign investments have halved the freight costs from south-east Asia. In telecoms, the UK-based Cable and Wireless paid $652m for 49 per cent of Intel, the state-owned operator, and plans to invest $500m in modernisation.

With the canal operating at near capacity and the offshore banking sector unlikely to grow significantly, it is not obvious where growth will come from. Trade through the free trade zone could expand, although there may be less call for its services as neighbouring economies lower their import tariffs.

Panama City: after the slump of recent years, growth is picking up — Jon Mitchell/Panos

Much will depend on the prodnctive use of the so-called reverted areas in the five-mile strip along the canal that is gradually being abandoned by the US military. The government, after a slow start, is approaching the task of finding profitable uses for the land with greater urgency. It says it has garnered investment pledges of $800m.

"By the side of the canal, there's nothing, no type of business at all," says Mr Fernández. "The canal will be more beneficial to the country when it reverts to Panamanian control."

If Mr Fernández is right, US withdrawal may come as a blessing. If not, economic growth is likely to prove insufficient to meet unsatisfied social demands.

BANKING • by David Pilling

Return of the banks that fled

The recovery has encouraged a fresh approach to the problems of the past

So restricted are the powers of the National Banking Commission, the nearest thing Panama has to a supervisory body, that it is not even allowed to examine the most basic bank records. According to the banking law of 1970, which still holds sway, such limits on access to information are necessary "to protect the interests of the bank's clients and the confidentiality that its operations require".

This state of affairs, says Paul Smith, general manager of Banco Continental, a Panamanian bank, stems from a period when "the concept of a banking centre was as a tax haven". In those days, "everyone knew about the Caymans and the Bahamas. First, there was secrecy. Second, there was very light supervision of banks established in those centres: the word 'monay-laundering' hadn't been invented yet."

Tax exemptions, relative stability, a dollar-based economy, low inflation, and finance operations related to the Colón Free Zone combined with a loose regulatory framework to build Panama into an offshore banking centre of respectable size. Many banks set up regional headquarters in Panama City where they captured dollar deposits for lending in Colombia, Argentina, Brazil, Venezuela and elsewhere. In the early 1980s, total bank assets reached nearly $50bn.

The Mexican debt crisis of 1982, compounded by Panama's own economic and political woes in the mid and late-1980s, led to huge capital flight. By the end of 1988, the sector's total assets had dropped to $11.6bn. Several banks had pulled out altogether.

The gradual return of political stability since 1989 has helped reverse this decline. By the end of 1996, there were 108 banks operating in Panama with total assets of $34bn. Of these, 84 were foreign bank branches or representative offices and 24 were domestic banks. Total deposits were $25.8bn of which $15.4bn were offshore. The sector contributes more than 10 per cent of national incoma, partly because of laws insisting that represented banks maintain a physical presence in Panama.

The recovery has not stemmed pressure, both international and domestic, to clean up the sector further. The government has drafted a new banking law, due to be passed early next year, which will beef up the powers of the Banking Commission, increase banks' capital requirements and adopt Basle standards for risk-weighted capital.

"The new banking law is for a mature banking centre," says Ernesto Pérez Balladares, the president. "The one we had was an incentive law designed to make Panama attractive for banks... We now want to make sure they stay and operate according to accepted world standards."

The planned law, currently being discussed with bank officials, would build on legislation passed in the early 1990s to clamp down on money laundering. Banks are required to report any auspicious transactions, while deposits or withdrawals of more than $10,000 must ha reported to the National Banking Commission on a form signed by the customer. The use of numbered accounts has dropped substantially.

Some analysts believe that if Panama improves its image, the offshore banking centre could capture a good deal more business. Moody's, the ratings agency, says: "A strengthaned regulatory framework may result in an enhanced reputation for Panama as a banking centre, improving the medium-term outlook for this sector."

Joseph Salterio, chief exectiva officer at Midland Bank in Panama, agrees. "Now you're seeing banks trying to expand as Latin America reactivates itself," ha says. "You'll sea a big expansion of regional operations by major international banks out of Panama."

Not so, says Mr Smith. Panama will struggle to challange other, more sophisticated, offshore centres such as the Cayman Islands where banks hold about $400bn in assets. Panama's position as a regional banking centre, rather than strengthening, could become less tenable as other countries in the region get their economies in order and liberalise their foreign exchange markets, he says.

"Wa won't even get back to $50bn [in assets] because of the structural changes in the rest of Latin America where other markets are opening up. More and more banks are going directly into their target markets instead of operating through Panama."

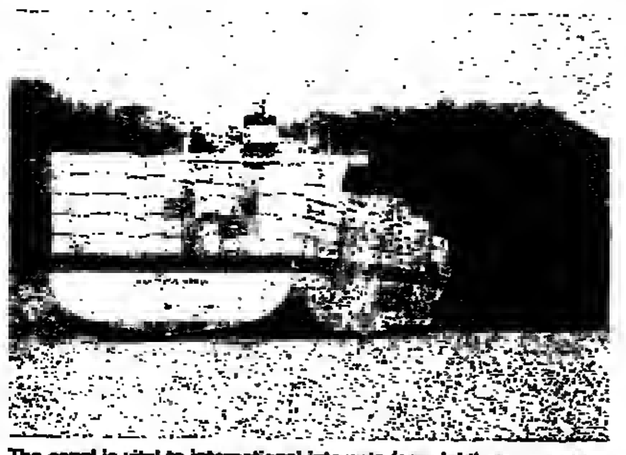
Panama cannot hope to compete with bigger economies such as Mexico, Brazil and Argentina, says Mr Smith. He and other bankers believe the best chance of growth lies in Central America, where Panamanian-based banks could find a niche, financing trade and infrastructure projects. At home, Panama's small retail market, narrow margins and crowded marketplace make competition tough.

"Foreign banks set the pace in terms of competitiveness and productivity," says one local banker. The banks scoop up most of the business with the handful of blue-chip Panamanian companies, he says, leaving local banks to conduct business with second-tier companies.

INTERNATIONAL RELATIONS • by Raymond Colitt

After Uncle Sam goes

US military withdrawal forces the government to look hard at its priorities



The canal is vital to international interests (see right) Jon Mitchell/Panos

Panama's foreign policy, as much of its economic and political life, has been shaped under the influence of the US. As the US reduces its military presence and prepares for its complete withdrawal by December 31 1999, Panama is seeking to redefine its position in the western hemisphere and its identity in the eyes of the world. The former president, Guillermo Endara, says: "Panama's nationalism needs to be dusted."

"We have had a very special but subordinate relationship with the US throughout this century," adds Ricardo Arias Calderón, a former vice-president. "We benefited materially [from that relationship] but we paid a high cost in our national identity. We've beeo isolated from the rest of Latin America and only related with Europe and the Far East through the United States."

One of the most graphic examples of Panama's regional isolation came after the US invasion in 1989, when the government of then-president Endara was denied immediate recognition by several Latin American countries. Its re-entry into the 14-member Rio Group was postponed until after the 1994 elections.

Pivotal to a change will be the return of country's greatest asset, the canal, from US to Panamanian control. "Our relationship with the United States will become much better, less intense. Bnt we will also strengthen our international Identity," says Ricardo Alberto Arias, the foreign minister.

Indicative of the government's struggle to assert its sovereignty while maintaining a positive relationship with the US, is the debate over a proposed multinational anti-narcotics centre (CMA) to be installed in a US military base.

The government dismisses critics who say it is merely an excuse for continued US military presence, arguing the CMA could put Panama at the centre-stage of regional co-operation in the anti-narcotics war. The government has, however, rejected the possibility of the US keeping military bases in support of the CMA.

Except for the presence of additional Latin American military personnel, the CMA would differ little from the anti-drug centre until recently operated by the US Southern Command at Howard Air Force base, where information from radars, surveillance aircraft, and informants is processed.

In accordance with Panama's constitution, which requires popular approval of any international treaty related to the canal zone, the CMA is now to be the subject of a referendum. Opinion polls earlier this year indicated more than 70 per cent of the population favours it.

Another test for Panamanian diplomacy is the country's relationship with mainland China and Taiwao. Panama is one of 31 countries that maintain diplomatic relations with Taiwan, one of its more important foreign investors.

Last month's international conference on the future of the canal, intended to placate user concerns over Panama's takeover, was a flop for both Panama and Taiwan. As a result of a Beijing-led boycott in response to the participation of Taiwan's president, Lee Teng-hui, only the presidents of Nicaragua and Honduras took part, denying Mr Lee and Panama the international exposure they sought.

China is the third-biggest user of the canal, and its trade with Panama has increased through Hong Kong, which exports $1.15bn of consumer products to Panama's free trade zone for resale. The Hong Kong corporation, Hutchison Whampoa, recently won important contracts to modernise and operate ports in Panama.

President Ernesto Pérez Balladares said he stood by his country's ties to Taiwan and suggested the Chinese could "go around Cape Horn" as an alternative to the canal. Yet Mr Arias, the foreign minister, says "we hope to be able to maintain relations with both countries and think this is entirely possible".

One of Panama's new foreign policy initiatives has been an aggressive agenda of trade talks. Though Panama has few export products, it considers access to markets as a prerequisite for attracting foreign investment. "We are a small economy and must provide access to markets for investors to take advantage of our geographic position," says Yury Moreno, who heads the country's bilateral trade talks.

Rather than joining the Central American Common Market and Andean Community, its natural trading partners, Panama has instead decided to negotiate free trade agreements with both. In a presidential summit in Panama City last July, all central American countries pledged to reach a free trade agreement with Panama within one year.

According to Mr Arias, Panama preferred to stay outside the trading blocks because membership of either would have forced it to negotiate with a third country at a much slower pace. Panama expects to sign a free trade agreement with Chile this year and with Mexico early next year.

With Chile, tariffs will be eliminated on 70 per cent of products immediately. The remaining tariffs will be phased out over periods of five, nine and 15 years. Agricultural products such as sugar, bananas, and tomatoes were granted the longest protection. Most of these agreements, says Mr Moreno, cover goods and services, investment, intellectual property rights and state purchases. The service industry accounts for 70 per cent of Panama's gross domestic product.

Panama has recently joined the Andean Development Corporation (CAF) and is formally entering the World Trade Organisation this month. But the country's image abroad has been blotted by its policy of harbouring deposed politicians escaping justice, from ex-president Abdalá Bucaram of Ecuador to Guatemala's former president Jorge Serrano, who is wanted on corruption charges.

Explains Mr Arias: "You normally don't make decisions on political asylum because they are wise or benefit the country but because a person needs that asylum."

There is a double standard at work, however. Colombians crossing the border into Panama to escape violence provoked by paramilitary activity do not receive refugee status, despite requests by the UN High Commissioner for Refugees.

THE CANAL • by David Pilling

Control of the instrument of the nation's destiny

The transfer of Panama's greatest asset from US control raises many questions

Trade statistics

Excludes imports to and re-exports from Colón Free Zone

Principal exports (1996)	$m	Principal imports (1995)	$m
Bananas	184	Capital goods	582.7
Shrimp	74.7	Food products	230.8
Oil derivatives	28	Oil	144.7
Total incl others	569	Total incl others	2,510.7

Source: EIU

A mere hamburger's throw from the grand stone building that houses the Panama Canal Commission are the golden arches of a McDonald's fast-food eaterie. At midday on December 31 1999, McDonald's will, as usual, be doing a brisk trade serving hamburgers to Panamanians brought up in the American way. Bnt at the Panama Canal Commissinn everything will have changed.

Control of the canal, jealously guarded by the US for more than 80 years, will be handed over to Panama. It will, say US civil servants, be the first time a US federal agency has been transferred to foreign control.

The prospect is causing mild concern within the shipping industry. Some have expressed fears that the canal, which handles 4 per cent of international maritime trade, could become subject to political inflnence and that its smooth running might suffer as a consequence.

Such anxiety is misplaced, says Richard Wainio, the canal's American executive planning director. Already 93 per cent of the nearly 8,000 staff operating the canal – inclnding its administrator – are Panamanian. Many of the Americans now working for it will continue to do so after 1999.

"Concerns abont corruption and efficiency have been expressed by a number of carriers," says Mr Wainio. "But Panama has a history of being more efficient than most countries you would characterise as 'third world'."

Besides, says Alberto Alemán Zubieta, the canal's Panamanian-born administrator, Panama's congress has unanimously passed a law, backed by a constitutional amendment, designed to "protect the canal from political pressure and manipulation".

The canal will be run by an 11-member board, only a minority of whom can be nominated during any five-year presidential term. The chairman of the new board will have a cabinet position in Panama's government.

The legal framework will give the new Panama Canal Authority "the financial and operating independence that are vital tn running an enterprise," says Mr Alemán. "It's going to be run as a business – an antonomous activity."

But independence, say critics, has been compromised by last month's announcement of the presidential nominations to the new board. These included relatives of Mr Pérez Balladares as well as members of the Revolutionary Democratic party who served under General Mannel Noriega.

One western diplomat says the new arrangements will not protect the canal from political tampering. But, he says, the Panamanians have a strong economic incentive to ensure the canal continnes to run smoothly.

The new body, like the commission it snpersedes, will continne to pay a little more than 15 per cent of gross toll revennes to the Panamanian goverament, plus two annual lump sums of $10m. In 1996, payments amounted to $104.6m. The new canal authority is committed at least to matching the sum transferred to the Panamanian government in the last year of US control.

The canal will also continue to fund its $1bn modernisation programme, due to be completed by 2005 and designed to raise capacity by a fifth. The project, which will widen the narrowest part of the canal and npgrade lock eqnipment, will be financed entirely from income.

If demand for use of the canal, which handles an average 37 ships a day, rises as quickly as expected, the current expansion programme will not be enough. Mr Alemán says it will then become necessary to consider building a third set of locks, which would raise capacity further and allow so-called "post-panamax" ships – those too large for the present locks – to pass through. Some shipping experts say the canal could rapidly become obsolete unless new locks are built.

One study estimates this would cost at least $8bn, though Mr Alemán believes it could be done for considerably less. Either way, the canal would need to borrow money for the first time in its history. One option, says Mr Alemán, would be to issue bonds internationally.

Such a move might take the canal a step closer to possible privatisation, a prospect that even the most rigorous free marketeers in Panama's government refer to only in hushed voices. "Yoo can never say never," says Mr Alemán. "Bnt for Panama the canal is highly significant: a national treasure."

Nonetheless, he says, the canal will be run more like a profit centre than its current federal agency status allows. Although he does not foresee any lay-offs, some tasks carried out by canal employees will be contracted out. There is some nervousness among staff that salaries – which start at the US minimum wage – may come under pressure.

There is also speculation that Panama may be tempted to raise canal tolls in an effort to squeeze more revenue from its single most important asset. The US has already sanctioned a two-phase toll increase, of just over 16 per cent, to be completed by next year. The idea is to take the pressure off Panama to raise rates immediately after it takes over. US grain shippers, the canal's biggest users, have expressed more concern over toll increases than about transfer of control.

"No-one here is naive enough to raise tolls astronomically," says Mr Wainio. "Panama won't do that. They understand market forces and elasticity." Contrary to common perception, he says, the canal does not have an absolute monopoly. "If yon raise tolls or if efficiency goes down, trade will go elsewhere."

The other main pending question is the security of the canal, now protected by a dwindling number of US troops. Panama has disbanded its own armed forces and will have to spend money on defending the canal, which is vulnerable to terrorist attack. US diplomats are also believed to be concerned by what they perceive as Chinese influence, following the adjudication last year of two strategically placed ports to Hong Kong-based Hutchison Whampoa.

Mr Alemán insists that political intervention in any future problems, whether external or internal, "is an absolute no no". "For 83 years the canal has been run as a US federal agency," he says. "Panama is saying we will now run it as a corporation – more efficiently than at present."

THE REVERTED AREAS • by Sally Bowen

Now for malls and hotels

The bases are being converted for commercial concerns of every conceivable type

At the very least it was embarrassing. The same piece of land, until recently part of the US-controlled Canal Zone, suddenly had three owners claiming it: Hutchison Port Holdings of Hong Kong, the Kansas City Southern Railway and the new airport at Albrook.

It is an administrative mistake which is likely to cost the Panamanian government some $60m in compensation. For Hutchison to cede the land, which is essential for future rail and air operations, an expensive attempt to purchase 40 hectares to make up for the loss will need to take place. The space is required for expanded cootainer operations at the port of Balhoa, which was recently acquired at privatisation.

This is typical of the lack of co-ordination in dealing with the "reverted areas", say critics. They also accuse the Interoceanic Regional Authority (ARI), the government body charged with managing and finding new uses for the former military bases, of dragging its heels.

Nicolas Ardito Barletta, ARI's chief – a former Panamanian president and senior World Bank official – denies this. "The message is, ARI is moving," he saya. "In the US, the conversion of a former military base to civilian use takes three to five years on average. We received Forts Davis and Espinar less than two years ago and they are 85 per cent privatised. Fort Amador reverted under 12 months ago and we already bave contracts worth $300m on it."

To date, says Mr Barletta, Panama has secured investment commitments for reverted areas totalling $800m which will materialise within five years. Largest of these is the ambitious tourism complex planned for the three-islands which make up Fort Amador, involving a luxury hotel, time-share villas, a cruise ship terminal, shopping mall and monorail. Work by United Enterprises Trust, the Korean-American consortium of developers, is expected to commence in December. The reverted areas are, in their entirety, officially valued at $4bn.

The other important investments are in ports infrastructure. The former US Navy seaplane base of Coco Solo has been transformed into two hustling container terminals. The Arraijan oil tank farm on another former hase, Rodman, became the site of the first significant Saudi investment in Latin America several months ago. Here the Jeddah-based Alireza Group, in a joint venture with Mobil Oil, is investing $22.5m over three yeara (and paying $40,000 per month's rent) to build a modern marine bunkering supply operation on the existing oil storage and pipeline infrastructure.

Under the master plan designed by Nathan Associates of Washington DC, other areas have been earmarked for eco-tourism and industrial development. In June, a Mexican-Spanish consortium signed a contract to huild a $25m five-star hotel at Fort Espinar, the former site of the School of the Americas. The area around Gamboa on Lake Gatun, a convenient 35-minute ride from downtown Panama city, will become an "ecological village" to rival similar ventures in Costa Rica, says Mr Barletta.

ARI also inherits a wide variety of buildings and installations, ranging from bowling alleys and golf courses to schools and swimming pools. Recently, a US company took over the 80 year-old Gorgas hospital and will convert it to a modern centre for long-term care plus drug and alcohol abuse treatment.

At Albrook, plans are under way for a retirement community for US citizens, mainly former employees in the Canal Zone who wish to stay in Panama. The handing-back of these huge areas – determined as long ago as 1977, in the treaties signed between the then presidents Jimmy Carter and Omar Torrijos – has provoked mixed reactions among Panamanians. The withdrawal of the US military presence is welcomed as a "second independence" from America. It deprives the Panamanian economy, however, of an income of some $350m a year, equivalent to around 5 per cent of GDP.

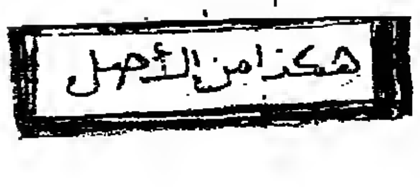
As well as ports and tourist-orieoted projects, ARI is attempting to promote "maquila"-style export ventures (with the transformation of goods for re-export) oo selected sites. The first of these is on the former Fort Davis base, which is being converted to an assembly park for small Taiwanese manufacturers. They have invested $7m to date in improving infrastructure. Two companies are operating ao far, with eight more expected by the year's end.

The technology involved is intermediate – plastics, umbrellas, toys and simple electronics – and government officials hope to generate several thousand joha through this and other schemes. The drawbacks for investors are the relatively high, dollar-based, Panamanian wages, low levels of productivity and the lack of industrial experience in a service-oriented economy.

"It's too early to gauge the impact of the reverted areas on the national economy," says Mr Barletta, "but we're hoping for 25,000 new jobs in the next four years."

Under its current 10-year mandate, ARI also has responsibility for the physical environment of the canal basin. Mr Barletta is relieved at the recent passage of long-awaited legislation defining the use of each zone. Reforestation programmes and the protection of the vital watershed from invasion or depredation by landless would-be farmers are key.

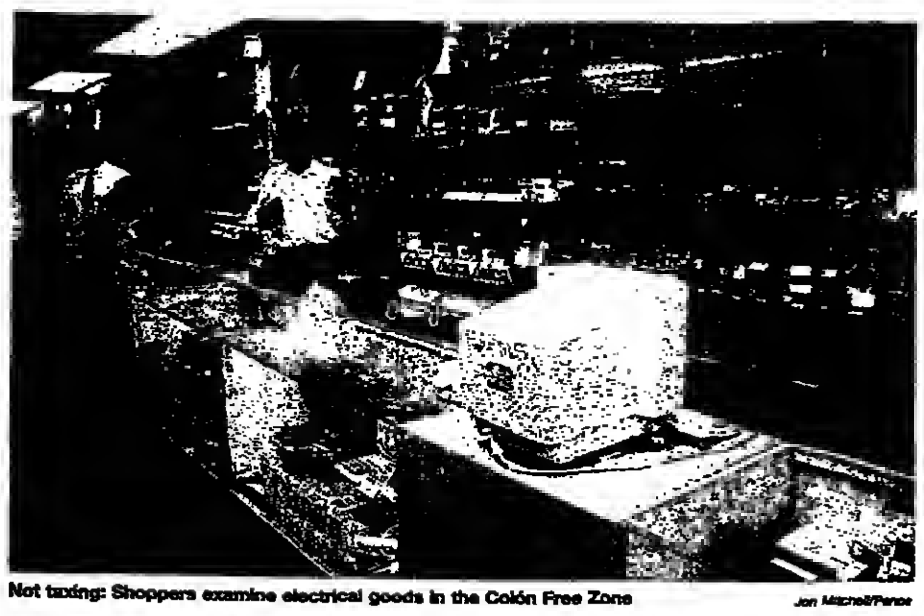
One shadow still lurks over the reverted areas: the pollution prohlem. Unlike their domestic counterparts, overseas bases are not subject to US laws requiring clean-up prior to reversion to civilian use. Some identified munitions dumps will be off-limits for years, and there is evidence of other problems such as leaking underground fuel tanks and left-over chemicals.



THE COLON FREE ZONE • by Raymond Colitt

Tropicana wholesale

Tax exemptions in one of the largest free trade zones have boosted profits



Not taxing: Shoppers examine electrical goods in the Colón Free Zone — Jon Mitchell/Panos

From as close as Havana and as far away as Buenos Aires, merchants from the entire western hemisphere come to do their shopping in Panama's Colón Free Zone (CFZ), one of the world's largest free trade zone. Instead of shopping by carts, most visitors here load up a container with an assortment of goods, which are swiftly packed and sent on the next outward bound freighter. This allows for the purchase of assorted goods at bulk rates.

Only a year ago, the CFZ's future was shronded in uncertainty as a stiff tax rise caused sales to drop after a decade of continued growth. The total value of imported goods fell from \$5.1bn in 1995 to \$4.6bn in 1996, whila re-exported goods had diminished from a record \$5.75bn in 1994 to \$5.52bn by 1996. As well, tumbling trade barriers throughout the region, it was thought, would have a devastating impact. Several merchants packed their bags and some pessimists even forecasted the imminent closure of the CFZ.

Today the CFZ, with its 400 hectares of warehouses and air-conditioned showrooms nestled on the Atlantic entrance of the Panama Canal, is once again flourishing and heading for new record sales. In the first seven months of 1997, the CFZ re-exported 11.9 per cent more than during the same period the year before.

One of the principal reasons for the recent recovery, says Pedro Campagnani, general manager of the CFZ, is a complete income tax exemption for the 1,626 companies operating in the zone, approved in September of last year and effective as of January 1 1997. The administration of president Ernesto Pérez Balladares had initially increased the income tax in June of 1995 from 8.5 to 15 per cent. After protests by CFZ users and the impact the move had on business, the government not only reversed the increase but abolished the income tax completely for all users.

"The government realised the importance of the CFZ in the national economy," says Nidal Waked, president of the CFZ Users Association. The free trade zone accounts for 14 per cent of GDP and employs some 13,000 people directly and another 5,000 indirectly.

The CFZ also benefited from an international publicity campaign for a June exhibition of the CFZ in Panama City, says its marketing director, David Mulgrave. The recent modernisation of the ports, which brought down shipping costs and loading time per container, has made the CFZ more competitive, be adds. Before the port privatisation, the National Port Authority had one operational gantry crane. Today there are 12.

The CFZ, wbich was founded in 1948 as a means to stimulate the local economy during the post-war recession, has lost business from some of its large customers like electronics manufacturing giants Samsung and Goldstar. These companies used to supply the Latin American market exclusively with imports but now produce locally as well.

Falling tariffs and trade barriers tbronghout the region are hitting the smaller free trade zones more than the CFZ, says Mr Campagnani. Rising trade volumes to and from Latin American, he says, represent a growing potential market. Shopping tariff free, ironically, is not the CFZ's principal attraction, for most wholesalers pay tariffs when they bring the goods into their country for resale. For some merchants, the benefit is to see the merchandise and be able to buy any quantity at near factory outlet prices.

The delivery time from the CFZ to a regional client is much less than that of a shipment from a far-away manufacturer and "there is always demand for quick delivery", says Surse Pierpoint, who heads Colón Import and Export, one of tbe CFZ's oldest users. Another key benefit for customers is that they can buy on credit. As much as 98 per cent of the merchandise is bought this way.

For the manufacturer, the CFZ is an inexpensive way to stockpile its merchandise for regional distribution. "What we do is called third party warehousing," says Mr Pierpoint

For many large Asian or European manufacturers, he explains, it is "far less expensive to have us own and manage a regional warehouse than for them to do so. They hsve none of the worries and can cancel their contract with us within 60 days".

"The CFZ has a future because we continue to provide services that go beyond zero-tariff shopping," adds Mr Waked.

The modernisation of the Pacific to Atlantic railroad and its related port facilities, which was acquired by Kansas City railways in November of 1996, can also be a part of this success. It will allow larger tankers to be serviced on either side of the canal with the possibility of transporting their goods to and from the CFZ efficiently.

More and more lightweight products, like microchips, leave the CFZ by air, and the up-and-coming privatisation of the nearby France field airport is expected to speed up this trend.

Nearly one-quarter of all prodncts come from Hong Kong, followed hy the US and Japan. Freight ships often return to Asia witb spare cargo capacity. Mr Campagnani seeks to channel more Latin American exports to Asia through the CFZ. "We want to become the world's show room for Latin American export products," he says, "not only for its import products."

PORTS AND INFRASTRUCTURE • by Sally Bowen

Bustling with new investment

Expansions bring a fresh confidence to the ports and other building schemes

Manzanillo was the first port to be privatised — Jon Mitchell/Panos

Close to the Panama Canal's Atlantic mouth and the run-down city of Colón, three fast-growing ports – two of them brand-new – are jostling for business. One is controlled from Taiwan, another from Hong Kong, while the third is a US-Panamanian joint venture.

"There's been a revolution in Panama's ports but we have not realised it yet," says Marco Fernández, an independent economic consultant.

Leading the revolution is Manzanillo International Terminal (MIT), a joint venture between Motores Internacionales of Panama (originally an importer and distributor of Lada cars from the USSR) and Stevedoring Services of America (SSA), the world's second largest ports operator.

Motores' initial \$10m investment plan to expand its prime site into a small port has mushroomed since the 1993 alliance with SSA: the partners have spent \$130m so far in dredging, infilling, building and equipping container berths. Another \$80m will go into the terminal by the end of 1998. MIT is already the largest trans-shipment centre in Latin America and one of the 10 most efficient ports in the world.

"We can hit 33 container moves per crane per hour," says Carlos Urriola, MIT's vice-president for marketing. "Over 25 is superb anywhere, 40 is Singapore's level. And we've done all this in eighteen months," he adds, pointing with some pride to the six huge "Panamax" and "post-Panamax" gantry cranes plucking containers from ships while top-loaders swing them into position on the qnaysida according to instructions received from the fully-computerised control room.

In recent months, MIT has slashed freight costs for containers from south-east Asia from \$4,000 to less than half that amount. Competition from even newer rivals, Evergreen's Colón Container Terminal (CCT) and Hutchison Port Holdings' Cristobal operation, may trim costs further.

Taiwan's Evergreen is the world's largest container shipper and some 40 per cent of CCT's initial custom will come from ships of its own line. "But we'll be challenging on price and service," says CCT president, Edward Horng. "We expect to take business away from Kingston, Jamaica. Ships can save a day by discharging bere and continuing through the canal."

CCT is investing \$100m in the first pbase of its operations at Coco Solo, a former US base on long lease. The first two cranes and container berths will be operational by October and two more gantries will be delivered by the year's end. Mr Horng expects to compete for some China trade with the Panama subsidiary of Hong Kong-based Hntchison Port Holdings, which is just taking over operations across the bay at the recently-privatised port of Colón.

Is there really room in Panama for three world-class container terminals? "It is better to ask if we will leave room for terminals in any other countries in the region," says a confident Mr Urriola.

Although Hutchison is the only ports venture resulting from a straight privatisation, Panama can claim considerable snccess in attracting foreigners to invest in decapitalised infrastructure. Guillermo Chapman, planning minister since the start of the Peréz Balladares administration, says, "we've been able to demonstrate to the public and the workers that privatisation is effective, that there are no traumas or costs, only opportunities."

Privatising the ports of Cristobal and Balboa involved reducing the state's 1,700 employees to some 300, but generous compensation packages "soon calmed the initial storm of protests," says Mr Chapman.

New private sector investments in Panama's infrastructure over the past few months include:

- The purchase by Britain's Cable and Wireless (C&W) of a 49 per cent stake in – and full management control of – former state telecommunications monopoly Intel. The \$652m offered by C&W was well above the \$500m minimum and \$200m ahead of the only rival bid from GTE of the US. Panama's current density of 12 lines per 100 inbabitants affords significant growth potential. C&W has announced phased investment of \$572m to increase fixed lines to 500,000 from the current 330,000 and to acquire the "A" cellular telephone band. Bell South of the US purchased the "B" band last year for an unexpectedly high \$72m, which C&W is legally obliged to match;
- The concession of the 141-year-old, 60-mile trans-isthmian railroad which links Panama City to the Atlantic port of Colón by Kansas City Sonthern Railway. The US company, which also recently moved into Mexico, will invest a minimum of \$30m, and possibly as much as \$50m, in upgrading the narrow-gauge track to standard rails. Kansas City aims to head an international trans-shipment operation which government officials say could generate revenue of \$420m-plus a year;
- Concessions for construction of tbe nortbern and southarn bypasses around Panama City, crucial in order to clear the clogged city highways. PYCSA of Mexico, whose investment commitment totals some \$320m, has almost completed the northern stretch of toll road and has started the 80km Panama City to Colòn bighway. ICA, also of Mexico, is investing in the \$250m "southern corridor" link to Tocumen international airport. Part of the financing comes from a once-controversial scheme to allow ICA to sell land near the small, downtown Paitilla airport.

Private sector involvement in provision of energy and water and sewerage services is moving ahead. ICA, together with the Canadian subsidiary of US-based General Electric, recently won the often-postponed tender for the 126MW Esti hydroelectric plant in western Chiriqui province, with the lowest proposal of \$219.6m.

Generating assets belonging to the state's hydroelectric energy resources agency IRHE are slated for privatisation next year, probably in six or eight units. Transmission, however, is likely to remain in state hands. The private sector is being enticed into water and sewerage investment, currently a state monopoly.

TOURISM • by Sally Bowen

Short on promotion

The business visitor is well catered for but tourist amenities remain sparse

Addressing a land-rights congress (left). Leisure facilities (above) and mines are the issues Jon Michel

Let's admit it: Panama suffers from something of an image problem. In addition to having a prominent US military presence, the country has long been viewed from abroad as a haven for deposed Latin American heads of state, leaders of failed coup attempts, embezzlers and money launderers.

For Kalli and Pieter Ernst, however, operators of Captain Morgan's beach bar and scuba diving school on idyllic Contadora Island, Panama is an undiscovered paradise of rare natural beauty where "dreams come true".

Giving up their respective jobs as banker and policeman in Germany, the brothers arrived in Panama just a month after the late 1989 US invasion that toppled the infamous Panamanian strongman Manuel Noriega. When an ambitious project to develop the nearby island of San José fell through, the brothers rented a white-sand beach close to the Contadora resort hotel and have never looked back.

To date, and for all the talk of unlimited tourist potential, Contadora (better known internationally for the 1983 conference that gave birth to the four-nation group) is Panama's only real tourist resort. A series of rustic-looking wooden buildings hidden in the wooded area behind a long, sparkling beach conceal a surprisingly comfortable four-star accommodation.

Two pools, a nine-hole golf course, simple but good cuisine plus free drinks and water sports make Contadora "one of the best-kept secrets in Central America", says the all-in resort's resident manager, Trinidad-born Arthur Stanley. In high season – November to April – 80 per cent of the guests are foreign, the hotel crowded with Canadians fleeing the rigours of a northern winter. At other times, locals hopping on to the convenient $45, 17-minute Aeroperlas flight from Panama City's downtown Paitilla airport account for more than half the visitors.

Panama remains underdeveloped for tourism. It has hundreds of kilometres of unspoiled beaches along both its Atlantic and Pacific coasts. "But," says Miguel Cortes, head of the Panamanian hotel chamber, "in all that enormous area there are only 420 first-class beds."

Both the last government and this one have stressed Panama's eagerness to promote tourism as an alternative source of revenne. Under the former president, Guillermo Endara, a $685m tourism master plan aimed to more than double existing hotel rooms to over 18,000 by 2002. By then, it was suggestad, Panama could attract 1.5m tourists a year.

More recently, a promotional 1994 law cut cumbersome red-tape and decreed that tourist investment projects would be approved in a maximum of 60 days. It also proffered generous incentives and benefits, including 20-year exemption from real estate taxes and duties on import of essential msterials.

Unfortunately, though not unpredictably, the initiative has partially backfired. The number of luxury hotels has increased in Panama City, but their owners are construction companies and banks taking advantsge of the incentives, not hotel operators. The target market remains the business traveller, not the tourist. And critics of the tourism promotion law say the duty-free import clause is widely abused.

History and nature meet: the colonial ruins at Portobello Jon Mitchell/Panos

Now, with some 2,000 extra first-class hotel rooms in the capital, hotel operators must prepare for a savage price war. And the government, sey tour agents, must eliminate current incentives in favour of promotion of the regions where beaches, water-sports facilities, and eco and adventure tourism potential make Panama a real rival to neighbouring Costa Rica.

According to Cesar Tribaldos, director of the national tourism institute IPAT, Panama will welcome some 470,000 visitors in 1997, around 7 per cent more than last year's 442,000. The $305m thsy spent in 1996 made tourism an important revenue-earner for Panama, after its banking sector, the canal and the Colón Pree Zone.

"But the government is confused," says the Contadora hotel's Mr Stanley. "So far, Panama doesn't understand what a tourist is: it's not someone wbo comes here to buy stereo-equipment."

Glossy in-flight magazines on Panama's international carrier Copa and local carrier Aeroperlas exalt the spleodours of the Atlantic islands of Bocas del Toro, but they are more easily accessible from Costa Rica and their rustic facilities attract ooly back-packers and the most stalwart of travellers. The Darien jungle, say travel brochures, hoasts 12 different "life zones" and 10,000 botanical species, but the area is hard to reach and regular cross-border incursions by Colombian guerrillas are an obvious deterrent to tourist developmeot.

The San Blas archipelago counts 360 unspoiled islands, some 50 of them inhabited hy the Kuna Indisns. The women still wear colourful traditional dress and sew multicoloured "molas", intricate embroideries featuring the islands' wildlife – birds, fish and monkeys. The islands are self-governing, however, and non-natives cannot own property. So far, the Kuna reject mass tourism: what accommodation exists is in primitive cahins.

"Panama has impressive potential," sums up a realistic Mr Cortes. "But despite the law, tourism is not genuinely on the government's agenda. If it does not act to correct the skewed supply of accommodation and design a real strategy for development, nothing's going to happen."

PROFILE The Kuna Indians

Access restricted for the sake of traditional homelands

The Kuna try to save a lifestyle under threat from tourism and mining

When the sun rises over sleepy, picturesque Kurbiski island in the Caribbean Sea, some 200 kilometres north-east of Panama City, its inhabitants, the Kuna Indians, are already busy harvesting coconuts, hunting or fishing from their cayucos, or one-masted canoe-like sail boats. For centuries these have been their primary economic activities.

Yet their brethren on neighbouring Wichub Huala island have found a different, more lucrative source of income. A daily flight from the capital brings in a handful of domestic and foreign tourists, who each leave behind an average of $50 per day.

By comparison, coconuts are worth $0.10 each and are exchanged for staple goods such as rice, sugar, and gasoline from Colombian merchants arriving from Cartagena, a two-day boat ride away. Kuna women sell colourful and elaborate molas, painstakingly embroidered textiles, to tourists for $5 to $15, along with seashells and other handicrafts.

Most say privately-run tourism has improved the quality of life on the 49 inhabited islands of the comarca, an area reserved for indigenous peoples and made up of a total of 369 islands.

"Tourism has been good for us," says Charly Philip, a Kuna who returned to his native village after working on a US army base for 16 years. "We live better now."

In an attempt to better distribute the tourist wealth, each visitor must pay $0.25 for taking a picture of a native and a $1 tax to the community. The latter does not always reach community coffers and both are controversial with inhabitants and visitors.

The comarca has retained traditionally enjoyed relative autonomy from the central government. It is run by a general assembly and each island has its own assembly, led by the Zaila, or chief. Rules and social norms are strict. Non-natives are not allowed to own or manage property, and a hotel backed by foreign capital was recently shut down. One foreign visitor is said to have been fined $1,000 for having harassed a Kuna woman.

Jesus Alemancia, an adviser to native Indian groups, says that the autonomy of comarcas throughout the country is being eroded by the government, which has mining and tourism interests in the lands of the indigenous peoples.

Enrique Garrido, a Kuna legislator, says that parliament, under pressure from the government, approved legislation that dramatically curtails self-rule by the native Indians in several comarcas.

"The laws recognise our culture identity, territorial and environmental rights but transfers decision-making in almost all areas from the traditional native Indian assembly to the central government," he says.

Mr Garrido adds that the current wave of democratic development and economic growth has brought little benefit to the indigenous peoples of Panama. "Nothing has improved since [General Manuel Antonio] Noriega left, nothing at all."

The Kuna number an estimated 35,000 between San Blas, Colón and Bocas del Toro provinces and are the largest of five indigenous tribes in Panama. These native Indian groups make up an estimated 5 to 8 per cent of the population.

Raymond Colitt

MINING • by Sally Bowen

Digging for local support

Companies are working hard to combat native resistance to exploration

Overlooked for centuries, Panama's mining potential is again arousing international investor interest. A Canadian company, Tiomin, is well established at one of the world's largest undeveloped copper deposits, while a decision is pending by Teck Corporation and Inmet Mining, both also Canadian, on whether to proceed with a project at Petaquilla.

Panama's proven and probable copper reserves total some 6bn tonnes, giving the country ninth place in the world rankings. If tonnages are high, however, grades are low, averaging just 0.6 per cent. While modern leaching techniques may make tackling the huge deposits more feasible than before, poor international copper prices are complicating investment decisions.

"Ws're very enthusiastic about our project: the mineralisation is huge," says Teck Corporation's Robert Turner in reference to Petaquilla. "It's the high capital cost that's the deterrent."

The Canadian partners welcome the "Petaquilla law" published in February – which gives the project legal and tax stability and financial incentives. "But we're still talking about a $1bn investment which needs careful assessment," says Mr Turner, who will be looking for partners to develop the necessary infrastructure, the big elements of which are port facilities and a thermal power plant.

Activity, meanwhile, is under way at Cerro Colorado in Panama's western Chiriqui province. Owned by Panacobre, a subsidiary of the Toronto-based Tiomin resources, Cerro Colorado has more than 1bn tonnes of reserves everaging 0.86 per cent copper. That makes it the world's 12th largest deposit.

Cerro Colorado has bad a series of owners through the years, the most recent being Rio Tinto in association with the Panamanian government's mining corporstion. Rio Tinto closed in 1986 and officially handed back its Cerro Colorado stake three years ago.

Previous and current concession-holders bave spent $60m in exploratory drilling, removing a massive 60,000 metres of core for analysis. Results of the current feasibility study will be ready in a couple of months: they indicate a "juicy project", says Michael Shaw, Panacobre's project manager.

Panacobre thinks it can develop Cerro Colorado more economically than originally thought using a method of leaching technology that did not exist in Rio Tinto's time. Revenue from this first $150m-investment phase would produce some 25,000 tonnes of copper cathodes a year and help finance construction of a later, conventional concentrator plant for the sulphides.

More than a hundred workers are already encamped near San Felix and the access roads are being improved. The impoverished local Indian families have been at least partially mollified by what Mr Shaw calls "a very aggressive campaign to show thet miners can be good neighbours": by March, Panacobre will have spent $1.8m locally. So far, the mine has built 30 school rooms and a health clinic, as well as providing technology to improve local coffee crops.

Creating good will is proving crucial to establishing mining as a credible alternative source of income for Panama. In a country bereft of any mining tradition, a combination of scare mongering and inept handling of public relations by some mining companies has raised the hackles of politicians, native and environmental groups and assorted local lobbyists.

Cerro Quema, a promising gold project, is a case in point. The concession, acquired last year by Campbell Resources of Canada, offers an estimated 300,000 ounces of microscopic gold.

Initial investment of $33m began early this year – backing into the remote mountain and building a key access road – with company officials projecting extraction of 50,000 ounces a year. There was work for 250 locals. But torrential rains caught the operator unprepared, washing tonnes of sediment into the Rio Quema and alarming residents who feared pollution. And a careless operations manager approved the illegal use of diesel to assist burning brushwood.

Anti-mining groups swung into action. Roads were blockaded, locals armed with threatening "machetes" prevented access to the mine. At the government's behest, operations were halted for two months but given the go-ahead again in mid-August.

"We were lax in our public relations efforts," admits Cerro Quema's new general manager George Simchuk, "but the government should have fined us and ensured the prohlem was corrected, not closed us down. It was a very bad message to other international mining companies."

Mining exploration continues, however, spearheaded by Canadians, usually in alliance with Panamanian partners who hold the rights to the most promising land. Cyprus Amax of the US runs a small operation in Panama that general manager John Wilson rates as "fairly impressive as an investment location". But the big international names associated with exploration in the 1970s have disappeared.

Today's main attractions are smallish gold projects such as Santa Rosa, whose 1995, $25m investment should produce some 57,000 ounces this year and contribute $20m to export revenue. The Santa Rosa operation has a simultaneous reforestation programme and, once exhausted, the mine is scheduled to become a tourist area with a bass-fishing lake. A percentage of the royalties paid to the government goes directly to the local community to fund development projects such as a water treatment plant.

Resistance to mining development clearly dwindles when and if neglected local communities see the benefits of jobs and services. Optimists predict mining could account for up to 15 per cent of Panamanian GDP in the early 21st century, employing several thousands of peopla – if Petaquilla and Cerro Colorado go into full production, that is.